Charter Township of West Bloomfield

Audit Observations and Comments

December 31, 2016

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June 6, 2017

To the Board of Trustees and Management
Charter Township of West Bloomfield

We have audited the financial statements of the Charter Township of West Bloomfield (the "Township") as of and for the year ended December 31, 2016 and have issued our report thereon dated June 6, 2017. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 27, 2017, 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 Township. 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.

Our audit of the Township's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Township, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated June 6, 2017 regarding our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

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 March 13, 2017.

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 Township are described in Note 1 to the financial statements.

The Township did not change accounting policies during the year with the exception of the implementation of GASB Statement No. 72, which enhanced investment disclosures, and GASB Statement No. 77, which includes new disclosures about tax abatements.

We noted no transactions entered into by the Township 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 calculation of the net pension liability and net other postemployment benefits asset (and related disclosure of the other postemployment benefit actuarially accrued liability), as well as unbilled water and sewer receivables. Management's estimate of the net pension liability and net other postemployment benefits asset is based on assumptions used in the actuarial valuations. Management's estimate of unbilled water and sewer receivables is based on historical usage. We evaluated the key factors and assumptions used to develop these 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 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. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: an adjustment was made to government-wide net position and net pension liability for an entry that was posted incorrectly during the prior year.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our retention as the Township'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 June 6, 2017.

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 Township'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.

Legislative and Informational Comments

Financial Outlook

The Township has completed four years of a financial recovery, following the drastic downturn of 2008-2012. We believe that the financial outlook is overall positive, with revenue growth close to or slightly less than inflation. However, we also see pressures on employee benefit costs that could exceed inflation. We believe that one of the chief reasons that the Township came through this recession as well as it did was because of the financial forecasting that was performed by your finance department. Even in these somewhat better times, we encourage the Township to continue its practice of financial forecasting so that it will continue to react timely as future trends become clearer.

Legacy Costs

The Township's issuance of pension and OPEB bonds has improved its ability to manage the funding of these legacy costs. The accounting rules for measuring pension costs changed in 2015, and we want to remind you that those same rules will go into effect in 2018 for OPEB. We expect this to dramatically change the reporting of your government-wide net position for your governmental activities, as follows:

	As Currently Reported	With Unfunded Health Care
Net position:		
Net investment in capital assets	$ 30,023,000	$ 30,023,000
Restricted	10,450,000	10,450,000
Unrestricted	245,000	(24,360,000)
Total net position	$ 40,718,000	$ 16,113,000

The fact that unrestricted net position will be negative should be considered along with the positive net position invested in capital assets. Because net position will still be positive in total, this indicates that the taxpayers have in fact paid the full cost of the services they have received. The amount paid in related to capital assets has exceeded the amount of capital assets used up (or depreciated) by $30 million, and the amount paid in related to employee services is $14 million less than the cost of those services - for a total reported net position of $16 million.

Administrative Charges

The services provided by employees that are traditionally charged to the General Fund (Treasury, Finance, HR, etc.) oftentimes significantly benefit other funds. As a result, it is a fairly common practice to charge administrative fees to the other funds. Administrative fees can take many forms such as interfund allocations, chargebacks, etc. While the practice of charging for administrative services provided to water and sewer funds, TIF districts, and such is clearly appropriate, there seems to be a heightened focus lately on the methodology and amount of charges. Given the fact that many cost allocation methodologies were implemented many years ago, it would be prudent to revisit your current methodology and the related inputs to ensure that any administrative charges are fully substantiated.

Public Act 530 of 2016 - Additional Legacy Cost Reporting

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). Under the existing 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 their 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 timeframe. The legislation calls for the Department of Treasury to accumulate all of the reports and publish a summary of funding levels throughout the State.

This information is intended solely for the use of the board of trustees and management of the Charter Township of West Bloomfield and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

David W. Herrington

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Joseph C Heffernan

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Michelle Lewis

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