

September 28, 2018

To the Village Council
Village of Beverly Hills, Michigan

We have audited the financial statements of the Village of Beverly Hills, Michigan (the "Village") as of and for the year ended June 30, 2018 and have issued our report thereon dated September 28, 2018. 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 - Other Recommendations and Related Information

Section III - 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 Village Council of the Village of Beverly Hills, Michigan.

Section II 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 Village 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.

Section III 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 Village'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 the Village Council and management of the Village 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



Martin J. Olejnik, CPA



Rumzei A. Abdallah, CPA

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 July 3, 2018, 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 Village. 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 relating to planning matters dated July 3, 2018.

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 Village are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, as of June 30, 2018, the Village adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of implementing this statement, the beginning net position of governmental activities was restated.

We noted no transactions entered into by the Village 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 recorded net pension liability and related expenses, the liability and expense associated with other postemployment benefits (OPEB), and the estimated unbilled water and sewer charges in the Water and Sewer Fund.

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

Management's estimates of the long-term cost of pensions and OPEB benefits is based on actuarial valuations, historical data, and other information. Management's estimate of the unbilled water and sewer charges is based on historical billings. 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 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. There were no misstatements noted as a result of the 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 Village, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the Village'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 September 28, 2018.

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 Village'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.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Village's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated.

Section II - Other Recommendations and Related Information

During our audit, we noted areas where we believe there are opportunities for the Village to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented below for your consideration:

Information Technology and Segregation of Duties Controls

During our review of the Village's information technology general controls and controls over reconciliations, we noted key controls over general ledger access that were not in place. Although the Village does have mitigating controls in place for the items noted, we recommend the Village implement these controls as a best practice measure. The controls include the following:

- Individuals with full administrative access to the general ledger system should not have access to post transactions.
- Individuals performing bank reconciliations should be restricted from accessing cash receipt, cash disbursement, and journal entry functions.
- Individuals with the ability to authorize journal entries should not have the ability to post journal entries, and individuals with the ability to post transactions should not have the ability to modify general ledger account characteristics.
- Physical security and prevention of data loss controls. This includes housing all equipment in protective casing and raising off the floor. Water sensors, temperature monitoring devices, and fire suppression devices are ways to better protect equipment and data from physical damage.

Property Tax Millage

In November 2010, a Charter Amendment was passed to increase the maximum authorized charter limit from 11.0000 mills to 12.9184 mills, effective July 1, 2011 for 10 years. The mills were split as follows: 9.900 for public safety, 2.100 for general administration, and .9184 for library. This 10-year amendment runs through July 1, 2021, at which point the limit is set to revert to 11.0000 mills. If the Village has not already done so, the Village should begin planning for the maximum reverting to 11.0000 mills, absent another amendment.

Section III - Legislative and Informational Items

Financial Outlook

The Village has now completed several years of modest financial recovery, following the 2008-2012 economic downturn. A review of your major revenue sources shows that:

- Property taxes continue to slowly inch up.
- State-shared revenue in fiscal year 2018, including personal property tax loss reimbursements, increased to approximately \$916,000 in the General Fund, an increase of approximately 3.3 percent over 2017 revenue.
- Building permit revenue continues to increase, which may show the continued strengthening of the taxable value base.

During the economic downturn, the Village resized its operations to fit the new lower revenue structure. The revenue improvements bring the Village 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.

Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018 year ends. However, on June 4, 2018, the State extended the deadline for compliance to “sometime in 2019.” This extension allows officials more time to convert to new accounts. In the meantime, the Treasury is working on developing training and additional information to assist in the transition.

Local units should begin evaluating this new chart of accounts to determine what changes will be necessary, including any budgetary changes, and set up a plan to achieve compliance. Some accounting software vendors have already been working with some local units on an automated remapping solution. The changes in the chart of accounts are not voluminous, but will require some review. The new chart of accounts can be found at the following link: http://www.michigan.gov/documents/uniformchart_24524_7.pdf

Legacy Costs

Legacy costs and the challenge of funding them continues to be a topic of discussion. The GASB pronouncements of late have placed even more focus on the net long-term liability arising from these benefit promises by requiring governmental financial statements to now reflect the net pension/OPEB liability. For many governments, these net liabilities are significant. In addition, PA202 of 2017 has brought further focus on the funding level of these plans.

The following are the funding levels per the funding valuations for the last three years for both pension and OPEB:

| Fiscal Year | Pension | OPEB |
|--------------------|----------------|-------------|
| 2018 | 88% | 67% |
| 2017 | 85% | 41% |
| 2016 | 79% | - |

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

Maintaining or even improving the funded status of the plans is dependent upon a number of factors, including the Village’s contribution policies, its amortization policy for funding the unfunded actuarial accrued liability, its benefit levels, and the ability to make future changes to the plan. Over the last several years, the Village has made excess “prefunding” contributions in to the OPEB plan. For fiscal year 2018, this amounted to approximately \$419,000 in excess of payment of current premiums.

That said, the challenge here is significant. We are happy to assist you in thinking through alternative ways to manage this liability.

Revenue Sharing

The State of Michigan FY 2019 budget recommendation includes \$1.3 billion for revenue sharing broken down as follows:

| Description | Final 2018 Budget | Final 2019 Budget |
|--------------------------------------|----------------------|----------------------|
| Constitutionally required payments | \$798.1 M | \$835.3 M |
| CVTRS | 243.0 M | 243.0 M |
| CVTRS - One-time payments | 5.8 M | 5.8 M |
| County revenue sharing | 176.9 M | 177.2 M |
| County incentive program | 43.2 M | 43.3 M |
| County one-time payments | - | 1.0 M |
| Fiscally distressed community grants | 5.0 M | 2.5 M |
| Supplemental CVTRS | 6.2 M | 6.2 M |
| Total | \$1,278.2 M | \$1,314.3 M |

For the second year in a row, local units will experience an increase in 2019, as the constitutional payment budget has been increased by \$37.2 million over the 2018 budget act appropriated amount. The FY 2019 budget also includes the “City, Village, and Township Revenue Sharing” (CVTRS) appropriation that was established in FY 2015, and that number remains flat at \$243 million. Each community’s overall increase will vary, as each has a different mix of constitutional and CVTRS.

In order to receive the CVTRS payments in FY 2019, qualified local units will once again need to comply with the same best practices as they did last year as follows:

- A citizen’s guide to local finances with disclosure of unfunded liabilities
- Performance dashboard
- Debt service report
- Two-year budget projection

The amount budgeted for distressed CVTRS has been reduced from \$5 million in 2018 to \$2.5 million in 2019. The State has once again budgeted \$6.2 million for “supplemental CVTRS” payments in FY 2019, but added a requirement that funds must be used to pay down debt, pension, or OPEB. Any city, village, or township receiving CVTRS payments will receive an additional payment equal to its population multiplied by \$0.807929 (rounded to the nearest dollar).

Section III - Legislative and Informational Items (Continued)

The “one-time” additional CVTRS payments that were in the 2018 budget are also part of the 2019 budget and remain flat at \$5.8 million. Additionally, \$1.0 million was added as a one-time payment for counties to be used for debt, pension, and OPEB. The one-time payment to counties will be distributed to all counties at a rate of 0.4627 percent of full funding under the Glen Steil State Revenue Sharing Act.

Pension/OPEB Bonds

Originally, the public act allowing for the issuance of pension/OPEB borrowings was set to sunset effective December 31, 2015, but was extended until December 31, 2018 through Public Act 46 of 2015. Therefore, communities meeting certain criteria, such as maintaining a credit rating of AA or higher and closing or freezing plans, can issue bonds up until December 31, 2018. House Bill 4529 would eliminate the sunset provision altogether. House Bill 4158 of 2015 would add entities with a bond rating of “A” if debt were insured.

Launch of MI Community Financial Dashboard

The Michigan Department of Treasury launched of the MI Community Financial Dashboard. This dashboard will provide you and your community members with easy-to-use visual data regarding your municipality. The data presented on the dashboard is pulled from the Annual Local Fiscal Report (F65) submitted by your local unit. The dashboard will present data from fiscal years 2010 through 2017. You can sign in and review the dashboard here:

<http://micommunityfinancials.michigan.gov/#!/dashboard/COUNTY/?lat=44.731431779455505&lng=-83.018211069625&zoom=5>

Administrative Charges

The services provided by employees that are traditionally charged to the General Fund, like treasury, finance, HR, etc., oftentimes significantly benefit other funds. As a result, it is a fairly common practice to allocate a portion of these costs via an administrative charge to other funds of the government. Administrative charges can take many forms, such as interfund allocations, chargebacks, and payment in lieu of taxes to other funds (such as a golf courses). While the practice of charging for administrative services provided to other funds may certainly be justified, there seems to be a heightened focus lately on the methodology and amount of charges. During our audit, we noted that during the current year, the Village visited the current methodology and related inputs to ensure administrative charges were fully substantiated. We encourage the Village to continue to perform this review annually.

Legacy Cost Reporting

Public Act 202 of 2017

On January 5, 2018, the Michigan Department of Treasury released initial reporting requirements under Public Act 202 of 2017 (the “Act”). These reporting requirements apply to all local units of government that offer or provide defined benefit pension and/or defined benefit OPEB retirement benefits.

The releases by the Department of Treasury included Numbered Letter 2018-1, Form 5572, detailed instructions for completion of Form 5572, and a listing of frequently asked questions. All documents can be located at http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html.

Section III - Legislative and Informational Items (Continued)

Form 5572 is due annually for both pension and OPEB plans provided by an employer no later than six months after the end of your fiscal year.

In addition to submitting this new form to the Department of Treasury, a local unit must also post this information on its website, or in a public place if the local unit does not have a website. The governing body of a local unit will also need to receive a copy of this form, in accordance with the Act, but the Act does not require approval by the governing body before submission to the Treasury.

The Public Act 202 defines that a local unit of government is in “underfunded status” if any of the following apply:

1. *OPEB* - Total plan assets are less than 40 percent of total plan liabilities according to the most recent annual report, and, for primary units of government*, the annual required contribution for all of the retirement health systems of the local unit is greater than 12 percent of the local unit of government’s governmental funds operations revenue.
2. *Retirement Pension Plans* - Total plan assets are less than 60 percent of plan total liabilities according to the most recent annual report, and, for primary units of government, the annual required contribution for all of the retirement health systems of the local unit is greater than 10 percent of the local unit of government’s governmental funds operations revenue.

If, after submission of Form 5572, the Treasury determines your community to have underfunded status, you will have the opportunity to file a “waiver” under Section 6 of the Act. The waiver needs to provide a plan for how the underfunding is being addressed. This waiver will then be submitted to the Treasury.

In the event that a local unit has underfunded plans and does not submit a waiver or the waiver is not approved, the Treasury will perform an internal review. The local unit will also need to submit a corrective action plan to the newly created Municipal Stability Board (under Section 7 of the Act). The local unit will be responsible for creating the corrective action plan.

For governments with OPEB plans, Section 4(l)(a)(i)(ii) of Public Act 202 of 2017 requires the local unit to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018. The actuary will likely need to calculate this number in order for governments to comply. In addition, if your community must essentially prefund this additional cost, those communities without a qualifying OPEB trust will need to consider where these contributions will go.

Questions should be directed via email to the Treasury offices at LocalRetirementReporting@michigan.gov or by visiting its website at www.Michigan.gov/LocalRetirementReporting.

*Primary units of government are cities, villages, townships, and counties.

Other New Legislation

LCSA Act Amendments

Public Acts 247 and 248 of 2018 were signed into law on June 27, 2018 by Governor Snyder. These acts significantly impact the Local Community Stabilization Authority (LCSA) Act, including how personal property tax reimbursements are calculated.

The State Department of Treasury issued a summary of the amendments in July 2018 which, can be found at the following link: https://www.michigan.gov/documents/treasury/Overview_of_2018_LCSA_Act_Amendments_627459_7.pdf.

Section III - Legislative and Informational Items (Continued)

This summary document lists the following changes that resulted from these Acts:

1. Accelerate some reporting deadlines and added two new reporting requirements
2. Change the calculation of the millage rate to be used in the calculation of the PPT reimbursements
3. Change the calculation of the personal property exemption loss and eliminate the requirements to recalculate prior year taxable values
4. Change the millage rate to be used in the calculation of a Tax Increment Finance Authority's (TIFA's) PPT reimbursement
5. Make the Local Community Stabilization Authority responsible for distributing the fire protection services payments
6. Create a process for correcting PPT reimbursements
7. Allow for a one-time PPT advance for prior year underpayments of \$500,000 or more
8. Change the payment dates of the PPT reimbursements to allow for corrections to current year reimbursements and delay the payment of qualified loss in excess of 100 percent until May 20
9. Change how municipalities are required to record and allocate the revenue

While we strongly recommend reviewing the link provided above for an in-depth look at the changes, highlighted below are the more significant changes.

- PPT reimbursement calculations are changing, as follows:
 - The requirements for recalculation of prior year taxable value have changed. Going forward, prior year property tax values for commercial and industrial personal property will only be modified for municipality boundary changes, as well as to exclude any that were classified in the municipality where they are currently located as utility personal property or real property after 2012.
 - The calculation of PPT reimbursements that are based on the acquisition cost of eligible personal property for two years has been delayed until 2021.
 - Reimbursement for 100 percent of the calculated qualified loss going forward will be received in either October or February.
 - Each year, any remaining balance of the local community stabilization share fund revenue for the calendar year will be distributed to counties, cities, townships, villages, and community colleges. The allocation will be based on each municipality's share of the total reimbursement based on the acquisition cost of all eligible personal property and qualified loss. These reimbursement payments will be a separate payment, which will be reimbursed in May. This allows time for any errors in that year's PPT reimbursement calculation to be identified and corrected.
 - There are also changes to the tax increment finance authority (TIFA) PPT reimbursement calculation; please refer to the link above for more details.

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

- Fire protection service payments will begin being distributed by LCSA to municipalities in 2018. The payment distributions will occur by November 30 each year. Each municipality is to continue to complete and submit the required questionnaire to LARA in order to qualify.
- Timing of PPT reimbursements: Beginning in 2018, PPT reimbursement payment dates are different than prior years.
 - Tax Increment Finance Authorities (TIFAs) - For a TIFA that previously received payments in November, reimbursements will be issued on October 20 of each year. Corrections for the underpayment of a 2017 PPT reimbursement or a current year reimbursement will be issued on May 20 of each year.
 - Municipalities, excluding School Districts, ISDs, and TIFAs - For a municipality that previously received payments in November, reimbursements for essential services, small taxpayer exemption loss, and qualified loss up to 100 percent will be issued on October 20 of each year. For municipalities that previously received payments in February, reimbursements for essential services, small taxpayer exemption loss, and qualified loss up to 100 percent will continue to be issued on February 20 of each year. Corrections for the underpayment of a 2017 PPT reimbursement or a current year reimbursement will be issued on May 20 of each year, as will the portion of qualified loss exceeding 100 percent reimbursement.

The table below provides a schedule of payment dates for all municipalities.

| Description of PPT Reimbursement | Date of Reimbursement |
|---|--------------------------------------|
| Advance for 2017 underpayment of \$500,000 or more | October 20, 2018 |
| Payment of calculated current year PPT reimbursements up to 100 percent of the calculated losses for county allocated millage, to municipalities that do not levy millage 100 percent in December and TIFAs | October 20 (each year) |
| Payment of calculated current year PPT reimbursements up to 100 percent of the calculated losses for townships, county extra-voted millage, and to municipalities that levy millage 100 percent in December | February 20 (each following year) |
| Payment of 2017 underpayment that was not advanced, current year underpayment, and prorated qualified loss in excess of 100 percent | May 20 (each following year) |

- Changes to the Requirement to Restrict Revenue: To date, the previous LCSA Act had only required a municipality to use the reimbursement amount received for debt millage to pay for debt and to use the essential service reimbursement to pay for the cost of essential services. The newly signed amendment now also requires that each municipality allocate and record the payments received in the same manner as the millage levied, up to 100 percent reimbursement. In addition, for county road millages levied under Section 20b of 1909 PA 283, MCL 224.20b, a formula to allocate a portion of the PPT reimbursement to each city and village must be decided on by March 31 by the cities, villages, and road commission. If this does not occur, a formula for allocating payments will be determined by the Department of Treasury.

Section III - Legislative and Informational Items (Continued)

As a reminder, the LCSA reimbursements should not be reported on the financial statements with property taxes; instead, they should be included with other intergovernmental revenue from the State (state-shared revenue, grants, and other). The State has created a new account number for the revenue, 573, and titled it "Local Community Stabilization Share Appropriation". As always, communities should follow the State's guidance related to the Uniform Chart of Accounts.

Upcoming Accounting Standards Requiring Preparation

GASB Statement No. 84 - Fiduciary Activities

GASB 84 provides criteria for state and local governments to use to identify whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once identified as a fiduciary activity, Statement No. 84 also provides specific reporting requirements.

This statement has the potential to significantly impact what governments report currently as a fiduciary activity. Upon adoption, we anticipate that some governments' fiduciary activities will need to move to governmental funds, while other activities that never before were considered fiduciary will now be reported as such. It is also possible that certain pension and OPEB fiduciary funds will no longer be reported in a local unit's financial statements.

Although this standard will not be effective for another year, given its potential to have a major impact on many governments, not only to its external financial statements, but also to its accounting system requirements and budget document, we encourage you to start analyzing the impact of this standard now. The first step to implementation is identifying the type of activities that should be analyzed and then running those activities through the lens of this standard.

GASB Statement No. 87 - Leases

This new accounting pronouncement related to leases will be effective beginning with the Village's 2021 fiscal year. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend the Village begin accumulating information related to all significant lease agreements now in order to more efficiently implement this new standard once it becomes effective.

Plante & Moran, PLLC will be providing trainings and other resources to our clients over the coming months in order to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started!