

May 13, 2019

To the Board of Trustees
Charter Township of Canton

We have audited the financial statements of the Charter Township of Canton (the "Township") as of and for the year ended December 31, 2018 and have issued our report thereon dated May 13, 2019. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Communications Required Under AU 260

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 board of trustees of the Charter Township of Canton.

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 Township'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 board of trustees and management of the Charter Township of Canton 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



Michael J. Swartz



Alisha M. Watkins

Section I - Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 14, 2019, 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.

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 February 8, 2019.

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.

No new accounting policies were adopted and the application of existing policies was not changed during 2018.

We noted no transactions entered into by the Township 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 are the self-insurance liability, the other postemployment benefits obligations (OPEB) liability, and the pension liability. Management's estimate of the self-insurance liability is based on information received from third-party administrators. Management's estimates relating to pension and other postemployment benefit obligations are based on a third-party actuarial valuation performed. 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. 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 Township, and business plans and strategies that may affect the risks of material misstatement with management each year prior to 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 May 13, 2019.

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.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Township's financial statements and report does not extend beyond the financial statements identified in the Comprehensive Annual Financial Report (CAFR). We do not have an obligation to determine whether or not such other information is properly stated. However, we read the introductory and statistical sections of the CAFR, and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

Section II - Legislative and Informational Items

Revenue Sharing

The 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 19 budget also includes the “City, Village, and Township Revenue Sharing.” (“CVTRS”) appropriation which was established in FY 15 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 19, qualified local units will once again need to comply with the same best practices as they did last year:

- 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 \$.807929 (rounded to the nearest dollar).

The “one-time” additional CVTRS payments that were in the 2018 budget are also part of the 2019 budget and remains 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% of full funding under the Glen Steil State Revenue Sharing Act.

Federal Procurement Threshold Changes

The Office of Management and Budget (OMB) has issued significant reforms to the compliance requirements that must be followed by non-federal entities. The Office of Management and Budget recently issued Memorandum M-18-18, which provides guidance on changes to micro-purchases and simplified acquisition threshold requirements. The key changes are:

- Threshold for micro-purchases is increased to \$10,000.
- Threshold for simplified acquisitions (small purchase procedures limit) increased to \$250,000.

Key adoption considerations for micro-purchase and simplified acquisition thresholds

- During the original adoption of UG procurement standards, were specific amounts included within the Township's procurement policy, or were reference to the UG sections or amounts as adjusted referenced? If specific amounts were referenced, the procurement policy will need to be updated to take advantage of the changes.
- If the Township's procurement policy was written to allow for changes in amounts, the procedures will need to be updated to conform.
- If this change is inconsistent with other procurement policies within the organization, the Township must decide how the policy will be enacted. Remember local ordinances in place may limit full utilization of changes.
- If the Township has chosen not to fully adopt the change and maintain a lower threshold, then the Township is not required to use these thresholds but cannot exceed them

Launch of MI Community Financial Dashboard

The Michigan Department of Treasury launched 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>

Public Act 57 Consolidation of Tax Increment Authorities

Public Act 57 of 2018, otherwise known as The Recodified Tax Increment Financing Act (the "Act") will go into effect January 1, 2019. This Act will consolidate the ability to create and operate Tax Increment Authorities (other than Brownfield Redevelopment Authorities) into a single statute. All previously created Authorities will remain, however the following acts will be repealed and the corresponding Authorities will now operate under the new Act:

- Downtown Development Authority Act (PA 197 of 1975)
- Tax Increment Finance Authority Act (PA 450 of 1980)
- Local Development Finance Authority Act (PA 281 of 1986)
- Nonprofit Street Railway Act (PA 35 of 1867)

- Corridor Improvement Authority Act (PA 280 of 2005)
- Water Resource Improvement Tax Increment Finance Authority Act (PA 94 of 2008)
- Neighborhood Improvement Authority Act (PA 61 of 2007)

Note that the above acts were repealed and recodified into the new Act. The Acts listed below were repealed, however they were not recodified.

- Historical Neighborhood Tax Increment Finance Authority Act (PA 530 of 2004)
- Private Investment Infrastructure Funding Act (PA 250 of 2010)

Any obligation, or refunding of an obligation, that was issued by an Authority or by the municipality that created the Authority, under a statute that was repealed by Public Act 57 will continue in effect under its original terms under the corresponding part of this Act.

Transparency and Reporting Requirements

1. By April 1, 2019, each Authority must submit its currently adopted development plan or tax increment finance plan to the Department of Treasury.
2. Annually, after January 1, 2019, each Authority must submit a comprehensive annual report to Treasury, the governing bodies of its related municipality, and each taxing unit levying taxes that are captured by the Authority. This report must contain detailed information on the capture and use of tax increment revenues and is due concurrent with the Authority's audit report due date (typically six months after the fiscal year end).
3. Within 180 days after the Authority's fiscal year end, subsequent to January 1, 2019, the municipality which created the Authority must give public access (either on their website or at a physical location within the municipality) to the following documents:
 - Minutes of all Authority Board meetings
 - Current Authority staff contact information
 - Authority's approved budgets and annual audits
 - Currently adopted development and/or tax increment financing plans
 - Current contracts with descriptions
 - Annual synopsis of the Authority's activity, which includes the following:
 - For any tax increment revenues not expended within 5 years of receipt, include the reasoning for accumulating the funds, their expected uses, and a timeframe of when they will be expended.
 - For any tax increment revenues not expended within 10 years of receipt, include the amount of those funds, along with a written explanation for the reason the funds have not been expended.
 - For the immediately preceding fiscal year, a list of the Authority's accomplishments, projects, investments, events, and promotional campaigns
4. The Authority must hold, at a minimum, two informational meetings each year, and give a 14-day advance notice to the public and to the governing body of each taxing unit. These meetings may be held in conjunction with other public meetings of the Authority or municipality.

Any Authority not in compliance with the above reporting requirements will receive a notice from the Department of Treasury. If the Authority is still in noncompliance status after 60 days from receipt of the notice, the Authority will be prohibited from capturing tax increment revenues in

excess of the amounts needed to pay bonded indebtedness and other obligations of the Authority during this period of noncompliance.

Additional Information

To view Public Act 57 of 2018, regarding the consolidation of Tax Increment Authorities and additional reporting requirements, visit the State of Michigan's website:

[http://www.legislature.mi.gov/\(S\(nhboq4doz1h4bwbqb0gcxqim\)\)/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018](http://www.legislature.mi.gov/(S(nhboq4doz1h4bwbqb0gcxqim))/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018)

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 of 2018 which can be found at the following link:

https://www.michigan.gov/documents/treasury/Overview_of_2018_LCSA_Act_Amendments_627459_7.pdf

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% 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 it is 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% 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.
- 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.
 - a. Tax Increment Finance Authorities (TIFAs) -For a TIFA that previously received payments in November, reimbursements will be issued October 20 of each year. Corrections for the underpayment of a 2017 PPT reimbursement or a current year reimbursement will be issued May 20 of each year.
 - b. 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% will be issued 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% will continue to be issued February 20 of each year. Corrections for the underpayment of a 2017 PPT reimbursement or a current year reimbursement will be issued May 20 of each year, as will the portion of qualified loss exceeding 100% 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% of the calculated losses for County allocated millage, to municipalities that do not levy millage 100% in December, and TIFAs	October 20 (each year)
Payment of calculated current year PPT reimbursements up to 100% of the calculated losses for Townships, County extra-voted millage, and to municipalities that levy millage 100% 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%	May 20 (each following year)
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- Changes to the Requirement to Restrict Revenues: 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% 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.

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.

Proposed Legislation

Dark Stores

(HB 4397) - This bill was recently introduced in the House and referred to the Committee on Tax Policy. This legislation would require Tax Tribunal members to make their own independent determination and apply standard appraisal procedures when reaching their findings of facts and conclusions of law in larger property tax cases. In recent years, the MTT has used the "dark store" assessing theory even for fully functional big box retail stores. The result is much lower assessments since the property is compared to the sales of vacant structures that oftentimes have deed restrictions severely limiting their use.

(SB 578) - Senate Bill 578 has been introduced in response to the Dark Stores issue that has been occurring in Michigan. If passed, it would amend PA 136 of 1973 the "Tax Tribunal Act" by amending section 3 (MCL 205.703), as amended by 2008 PA 125, and by adding section 38. The Bill would require that when a dispute regarding the true cash value of real or personal property is brought forth, the following must be done by the Michigan Tax Tribunal:

- review comparable properties in the market that have similar "highest and best use" as the property under review
- must separately state their conclusions of law and fact for those properties

Comparable properties should be determined as follows:

- Ensure that all information gathered on each property is verified for completeness and is accurate with regard to all noted disclosures, covenants on use of the property, private restrictions, the impact of such covenants and restrictions, sale terms, and the financing method
- If one of the comparable properties identified has a private restriction or covenant in connection with the sale or rental of the property which causes the property to have a

“substantially impaired highest and best use” as compared to the property whose assessment is under review OR if the private restriction or covenant does not assist in economic development of the property, does not provide a continuing benefit to the property, or if the chance of vacancy or inactivity on the property is “materially” increased such property should be excluded as a comparable.

Overall, the intent of the bill is to eliminate properties that are vacant (dark stores), inactive or have certain restrictions or covenants from being used as a comparable in an assessment dispute.

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 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 government's 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.

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 Township's fiscal year 2020. 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 Township 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 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!