

35th Judicial District Courthouse Authority

**Financial Report
with Supplemental Information
December 31, 2013**

35th Judicial District Courthouse Authority

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Independent Auditor's Report

To the Board of Directors
35th Judicial District Courthouse Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major funds of the 35th Judicial District Courthouse Authority (the "DCA") as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the 35th Judicial District Courthouse Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
35th Judicial District Courthouse Authority

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major funds of the 35th Judicial District Courthouse Authority as of December 31, 2013 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the basic financial statements, during the year ended December 31, 2013, the 35th Judicial District Courthouse Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule, as identified on pages 3-4 and 16, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Moran, PLLC

June 17, 2014

35th Judicial District Courthouse Authority

Management's Discussion and Analysis

Using this Annual Report

This annual report includes a management's discussion and analysis, a series of financial statements, and supplemental information for fiscal year 2013. The financial statements provide information about the activities of the 35th Judicial District Courthouse Authority (the "DCA") as a whole and present a longer-term view of the DCA's finances. The financial report also includes notes that explain some of the operations in more detail than the government-wide reports. The basic financial statements include information that presents two different views of the DCA:

The financial statements include information about the DCA's General Fund under the modified accrual method. This fund's financial statements focus on current financial resources.

The adjustment column of the financial statements represents adjustments necessary to convert the fund's financial statements to the government-wide financial statements on the full accrual basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

	December 31	
	2013	2012
Assets		
Current assets	\$ 548,609	\$ 556,259
Noncurrent assets	5,399,423	5,413,459
Total assets	5,948,032	5,969,718
Deferred Outflows of Resources	20,307	24,368
Total assets and deferred outflows of resources	5,968,339	5,994,086
Liabilities		
Current liabilities	5,620	6,636
Noncurrent liabilities	1,640,000	1,920,632
Total liabilities	1,645,620	1,927,268
Net Position		
Net investment in capital assets	3,759,423	3,495,821
Unrestricted	563,296	570,997
Total net position	<u>\$ 4,322,719</u>	<u>\$ 4,066,818</u>

35th Judicial District Courthouse Authority

Management’s Discussion and Analysis (Continued)

The Courthouse Authority as a Whole

	Year Ended December 31	
	2013	2012
Revenue	\$ 832,198	\$ 771,052
Expenditures	576,297	546,399
Changes in Net Position	255,901	224,653
Net Position - Beginning of year	4,066,818	3,842,165
Net Position - End of year	<u>\$ 4,322,719</u>	<u>\$ 4,066,818</u>

The 35th Judicial District Courthouse Authority does not actually receive revenue from any of the five communities that make up the funding unit as required by the court rule. Revenue is generated from the lease of the courthouse to the State of Michigan 35th Judicial District Court (the “Court”).

Court Budgetary Highlights

Fiscal year 2013 expenses were recorded under budget by approximately 3.5 percent due to monitoring expenses by management.

Economic Factors for Next Year’s Budget

2014 revenue is forecasted as staying flat; therefore, the DCA will continue to monitor the revenue as well as the operating expenses and make adjustments where appropriate to stay within the 2014 budget.

Contacting the DCA’s Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the DCA’s finances and to show the DCA’s accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the DCA’s administrator.

35th Judicial District Courthouse Authority

Statement of Net Position/Governmental Funds Balance Sheet December 31, 2013

	Modified Accrual Basis			Adjustments (Notes 1 and 2)	Statement of Net Position
	General Fund	Debt Service Fund	Total		
Assets					
Due from the State of Michigan 35th Judicial District Court	\$ 548,609	\$ -	\$ 548,609	\$ -	\$ 548,609
Capital assets - Net of depreciation (Note 4)	-	-	-	5,399,423	5,399,423
Total assets	548,609	-	548,609	5,399,423	5,948,032
Deferred Outflows of Resources -					
Deferred charge on refunding (Note 8)	-	-	-	20,307	20,307
Total assets and deferred outflows of resources	<u>\$ 548,609</u>	<u>\$ -</u>	<u>\$ 548,609</u>		
Liabilities					
Accrued interest payable	\$ -	\$ -	\$ -	5,620	5,620
Noncurrent liabilities:					
Due within one year	-	-	-	305,000	305,000
Due in more than one year	-	-	-	1,335,000	1,335,000
Total liabilities	-	-	-	1,645,620	1,645,620
Equity - Fund balance - Unassigned	<u>548,609</u>	<u>-</u>	<u>548,609</u>		
Total liabilities and fund balance	<u>\$ 548,609</u>	<u>\$ -</u>	<u>\$ 548,609</u>		
Net Position					
Net investment in capital assets				3,759,423	3,759,423
Unrestricted				14,687	563,296
Total net position				<u>\$ 3,774,110</u>	<u>\$ 4,322,719</u>

35th Judicial District Courthouse Authority

Statement of Activities/Governmental Fund Revenues, Expenditures and Changes in Fund Balances Year Ended December 31, 2013

	Modified Accrual Basis				
	Major Funds			Adjustments (Notes 1 and 2)	Statement of Net Position
	General Fund	Debt Service Fund	Total		
Revenue					
Base rental revenue (Note 7)	\$ 199,627	\$ 378,538	\$ 578,165	\$ -	\$ 578,165
Additional rental revenue (Note 7)	228,427	-	228,427	-	228,427
Capital contributions (Note 7)	-	-	-	25,606	25,606
Total revenue	428,054	378,538	806,592	25,606	832,198
Expenditures/Expenses					
Utilities	108,862	-	108,862	-	108,862
Building maintenance	82,436	-	82,436	-	82,436
Insurance	8,329	-	8,329	-	8,329
Capital outlay	236,077	-	236,077	(204,620)	31,457
Depreciation and amortization (Note 2)	-	-	-	272,691	272,691
Debt service	-	378,538	378,538	(306,016)	72,522
Total expenditures/expenses	435,704	378,538	814,242	(237,945)	576,297
Net Change in Fund Balances/Net Position	(7,650)	-	(7,650)	263,551	255,901
Fund Balances/Net Position - Beginning of year	556,259	-	556,259	3,510,559	4,066,818
Fund Balances/Net Position - End of year	\$ 548,609	\$ -	\$ 548,609	\$ 3,774,110	\$ 4,322,719

35th Judicial District Courthouse Authority

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies

The 35th Judicial District Courthouse Authority (the "DCA") was established in 1989 upon approval of an inter-local agreement by and among the DCA member District Control Units pursuant to the provisions of the Urban Cooperations Act, Act No. 7 of the Michigan Public Acts of 1967, as amended. The member District Control Units include the cities of Northville and Plymouth and the charter townships of Canton, Plymouth, and Northville. One purpose of the DCA is to establish a joint entity to lease, acquire, own, operate, and dispose of the courthouse building occupied by the State of Michigan 35th Judicial District Court (the "Court") for the mutual use and benefit of the District Control Units, who are also members of the Court. The DCA is comprised of a five-member board of directors consisting of one representative from each member city or township.

Reporting Entity

The 35th Judicial District Building Authority (the "Building Authority") was established on December 7, 1998 and is governed by a five-member board consisting of one representative from each member city or township. The Building Authority is legally separate from the 35th Judicial District Courthouse Authority; its primary purpose is to finance the courthouse building. The Building Authority's operations consist of the issuance and repayment of debt which is recorded in the appropriate DCA fund. The financial statements of the Building Authority are blended into the financial statements of the DCA. The assets of the Building Authority held for payment and administration of outstanding bond issues and other related debt are reported in the Debt Service Fund.

Accounting and Reporting Principles

The DCA follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the DCA. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The statements also present a column reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the expenses of a given function or segment are offset by revenues.

35th Judicial District Courthouse Authority

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

For the most part, the effect of interfund activity has been removed from these statements.

Fund Accounting

The DCA accounts for its various activities in several different funds, in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures that specific revenues were used for. The various funds are aggregated into one fund type:

Governmental Funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund and debt service fund. The DCA reports the following funds as “major” governmental funds:

- The General Fund, which is the primary operating fund, contains the records of the ordinary activities of the DCA. These activities are supported by rental and other revenue received from the State of Michigan 35th Judicial District Court
- The Debt Service Fund is used to account for payments of principal, interest, and expenses in conjunction with the bond issued for construction of the courthouse building.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the DCA considers amounts collected within 60 days of year end to be available for recognition.

35th Judicial District Courthouse Authority

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Specific Balances and Transactions

Capital Assets - All assets with an estimated useful life in excess of one year are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line method over the following useful lives:

<u>Capital Asset Class</u>	<u>Lives</u>
Furniture and equipment	7 years
Computer equipment	3-5 years
Vehicles	5 years
Building improvements	25 years
Buildings	30 years

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The debt service fund is generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The DCA had no deferred inflows of resources.

35th Judicial District Courthouse Authority

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

Sometimes the DCA will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance Flow Assumption

Sometimes the DCA will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the DCA's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The DCA itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of directors is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

35th Judicial District Courthouse Authority

Notes to Financial Statements December 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balances of the DCA's General Fund differ from the statement of net position and the statement of activities. This difference results primarily from the long-term economic focus of the statement of net position and the statement of activities versus the current focus of the General Fund balance sheet and statement of revenue, expenditures, and changes in fund balances.

The statement of net position includes the capital assets, deferred charge on refunding, accrued interest expense, and bonded debt associated with the construction of the courthouse. The statement of activities includes the reduction of capital outlay for assets capitalized of \$204,620, receipt of capital contributions of \$25,606, depreciation expense related to those assets of \$247,256, expensing of bond issuance costs and amortization of the deferred charge on refinancing of \$25,435, reduction of debt service expense for principal payments made on the debt of \$305,000, and recognition of accrued interest expense of \$1,016.

Note 3 - Budget Information

The annual budget is prepared by the judges of the Court and the Court administrator and adopted by the DCA; subsequent amendments are approved by the DCA. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2013 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that proceeds from the issuance of debt have been netted against the capital outlay expenditures, rather than as an other financing source.

The budget statement (budgetary comparison schedule - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

35th Judicial District Courthouse Authority

Notes to Financial Statements December 31, 2013

Note 3 - Budget Information (Continued)

The budget has been adopted on a line-item basis. A comparison of actual results of operations to the General Fund budget as adopted by the DCA is included in the required supplemental information on a summary basis. During the year, the DCA incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual
Capital outlay	\$ 212,000	\$ 236,077

Note 4 - Capital Assets

Capital asset activity of the DCA's governmental activities was as follows:

Governmental Activities	Balance January 1, 2013	Additions	Disposals	Balance December 31, 2013
Capital assets being depreciated:				
Buildings	\$ 7,704,968	\$ -	\$ -	\$ 7,704,968
Vehicles	93,628	-	-	93,628
Furniture and equipment	516,710	401	-	517,111
Computer equipment	497,589	101,965	14,359	585,195
Building improvements	143,755	127,860	-	271,615
Subtotal	8,956,650	230,226	14,359	9,172,517
Accumulated depreciation	3,540,197	247,256	14,359	3,773,094
Net capital assets	\$ 5,416,453	\$ (17,030)	\$ -	\$ 5,399,423

Note 5 - Long-term Debt

During the year ended December 31, 2007, the 35th Judicial District Building Authority issued general obligation bonds in the amount of \$3,190,000 to assist in funding the construction of the new courthouse. Repayment of these bonds is funded by the Court, which leases this building.

Long-term debt activity can be summarized as follows:

Governmental Activities	Interest Rate Ranges	Principal Maturity	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Bonds payable - 2007 General Obligation Bonds, original issue of \$3,190,000	4%-4.25%	2018	\$ 1,945,000	\$ 305,000	\$ 1,640,000	\$ 305,000

35th Judicial District Courthouse Authority

Notes to Financial Statements December 31, 2013

Note 5 - Long-term Debt (Continued)

Total interest expense for the year was approximately \$74,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 305,000	\$ 61,338	\$ 366,338
2015	300,000	49,238	349,238
2016	300,000	37,238	337,238
2017	345,000	23,906	368,906
2018	390,000	8,288	398,288
Total	<u>\$ 1,640,000</u>	<u>\$ 180,008</u>	<u>\$ 1,820,008</u>

Note 6 - Risk Management

The DCA is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The DCA has purchased commercial insurance for these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Rental Revenue

The Building Authority leased the courthouse building to the State of Michigan 35th Judicial District Court under an operating lease. The total rental revenue, including utilities, maintenance, and insurance, amounted to \$578,165 for the year ended December 31, 2013.

In addition, during the year ended December 31, 2013, the DCA received \$228,427 from the Court representing funding for various current and future capital outlay expenditures. This amount was recorded by the DCA as additional rental revenue.

35th Judicial District Courthouse Authority

Notes to Financial Statements December 31, 2013

Note 8 - Change in Accounting

During the current year, the DCA adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following items have been reclassified, as indicated:

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting Classification/Treatment</u>	<u>New Classification After Adoption of GASB 65</u>
Deferred amounts on debt refundings	\$ 20,307	Adjustment to the bonds payable liability	Deferred outflow of resources
Bond issuance costs	21,374	Asset	Outflow of resources (an expense)

Required Supplemental Information

35th Judicial District Courthouse Authority

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Base rental revenue	\$ 260,139	\$ 266,039	\$ 199,627	\$ (66,412)
Additional rental revenue	239,500	238,800	228,427	(10,373)
Total revenues	499,639	504,839	428,054	(76,785)
Expenditures				
Utilities	119,500	119,500	108,862	10,638
Building maintenance	106,000	111,900	82,436	29,464
Insurance	34,639	34,639	8,329	26,310
Capital outlay	212,000	212,000	236,077	(24,077)
Total expenditures	472,139	478,039	435,704	42,335
Net Change in Fund Balance	27,500	26,800	(7,650)	(34,450)
Fund Balance - Beginning of year	556,259	556,259	556,259	-
Fund Balance - End of year	<u>\$ 583,759</u>	<u>\$ 583,059</u>	<u>\$ 548,609</u>	<u>\$ (34,450)</u>

The DCA's budget was adopted on a line-item basis. The budget comparison shown above for the General Fund is more summarized than the General Appropriations Act. Information in this schedule is presented for the purpose of additional analysis.

During the year, the Court incurred expenditures that were in excess of the amounts budgeted in capital outlay by \$24,077.

June 17, 2014

To the Honorable Michael J. Gerou,
Honorable Ronald W. Lowe,
Honorable James A. Plakas,
and the Board of Directors
State of Michigan 35th Judicial District Court
and the 35th Judicial District Courthouse Authority

We have audited the financial statements of the State of Michigan 35th Judicial District Court (the "Court") and the 35th Judicial District Courthouse Authority (the "DCA" and collectively, the "Government") as of and for the year ended December 31, 2013 and have issued our report thereon dated June 17, 2014. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section I includes any deficiencies we observed in the Court's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Court's accounting policies and internal control.

Section II 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 judges and board of directors of the State of Michigan 35th Judicial District Court and the 35th Judicial District Courthouse Authority.

We would like to take this opportunity to thank the Court's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

To the Honorable Michael J. Gerou,
Honorable Ronald W. Lowe,
Honorable James A. Plakas,
and the Board of Directors
State of Michigan 35th Judicial District Court
and the 35th Judicial District Courthouse Authority

June 17, 2014

This report is intended solely for the use of the judges, the board of directors, and management of the State of Michigan 35th Judicial District Court and the 35th Judicial District Courthouse Authority 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

A handwritten signature in black ink that reads "David Helisek". The signature is written in a cursive style with a large, looped initial "D".

David H. Helisek

To the Honorable Michael J. Gerou,
Honorable Ronald W. Lowe,
Honorable James A. Plakas,
and the Board of Directors
State of Michigan 35th Judicial District Court
and the 35th Judicial District Courthouse Authority

June 17, 2014

Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the State of Michigan 35th Judicial District Court and the 35th Judicial District Courthouse Authority as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Court's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Court's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

We consider the following deficiency in the Court's internal control to be a material weakness:

- Journal entries were required for balances related to capital assets to be GAAP compliant. The Court should consider implementing its capital asset software to track capital assets and related depreciation, and have someone review the invoices for additions to ensure proper recording. If the proper journal entries are not posted, it could lead to inaccurate financial reporting.

To the Honorable Michael J. Gerou,
Honorable Ronald W. Lowe,
Honorable James A. Plakas,
and the Board of Directors
State of Michigan 35th Judicial District Court
and the 35th Judicial District Courthouse Authority

June 17, 2014

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Government's internal control to be a significant deficiency:

- The court administrator currently has the ability to make all general journal entries in the general ledger system, prepares checks to be signed, oversees payroll, and has the ability to initiate transfers between bank accounts. The administrator's involvement in transferring cash is specific to the Court's credit card accounts. The administrator reviews the bank reconciliations that are prepared by the accounting clerk, both of whom have access to the general ledger. In order to have stronger internal controls, the recordkeeping function should be separated from the credit card cash transfer function. The Court should consider separating those two functions. A lack of duty segregation such as these could lead to the misappropriation of assets taking place without detection in a reasonable period of time. The Court expects to move the responsibility of the credit card transfers to the clerk within the next fiscal year.

To the Honorable Michael J. Gerou,
Honorable Ronald W. Lowe,
Honorable James A. Plakas,
and the Board of Directors
State of Michigan 35th Judicial District Court
and the 35th Judicial District Courthouse Authority

June 17, 2014

Section II - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 27, 2014, 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 State of Michigan 35th Judicial District Court and the 35th Judicial District Courthouse Authority. 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 May 1, 2014.

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 State of Michigan 35th Judicial District Court and 35th Judicial District Courthouse Authority are described in Note 1 to the financial statements.

The Court and the DCA implemented a new pronouncement during the year, GASB No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of the implementation of this pronouncement, items formerly recorded as assets and liabilities were reclassified. In addition, the DCA expensed \$21,374 in bond issuance costs under GASB No. 65, which would previously have been recorded as an asset and amortized over the life of the bonds.

To the Honorable Michael J. Gerou,
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June 17, 2014

We noted no transactions entered into by the Court 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 estimate affecting the financial statements relates to the liability recorded for the other postemployment benefits obligation. Management's estimate of the net other postemployment benefits obligation is based on the December 31, 2011 actuarial report. We evaluated the key factors and assumptions used to develop the obligation in determining that it is 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. The attached schedules summarize uncorrected misstatements of the financial statements which were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

To the Honorable Michael J. Gerou,
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June 17, 2014

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Court, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Court'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 17, 2014.

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 Court'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.

To the Honorable Michael J. Gerou,
 Honorable Ronald W. Lowe,
 Honorable James A. Plakas,
 and the Board of Directors
 State of Michigan 35th Judicial District Court
 and the 35th Judicial District Courthouse Authority

June 17, 2014

Client: **State of Michigan 35th Judicial District Court**
 Opinion Unit: **Governmental Activities**
 Y/E: **12/31/2013**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax 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	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1	Salary expense incurred in 2013 but paid in 2014 should be accrued for in 2013			\$ 19,281				\$ 19,281	\$ (19,281)
		\$ -	\$ -	-	\$ -	\$ -	\$ -	-	-
	Total	\$ -	\$ -	\$ 19,281	\$ -	\$ -	\$ -	\$ 19,281	\$ (19,281)

PASSED DISCLOSURES:

D1
 D2

To the Honorable Michael J. Gerou,
 Honorable Ronald W. Lowe,
 Honorable James A. Plakas,
 and the Board of Directors
 State of Michigan 35th Judicial District Court
 and the 35th Judicial District Courthouse Authority

June 17, 2014

Client: **State of Michigan 35th Judicial District Court**
 Opinion Unit: **General Fund**
 Y/E: **12/31/2013**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax 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	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1	Salary expense incurred in 2013 but paid in 2014 should be accrued for in 2013			\$ 19,281				\$ 19,281	\$ (19,281)
		\$ -	\$ -	-	\$ -	\$ -	\$ -	-	-
	Total	\$ -	\$ -	\$ 19,281	\$ -	\$ -	\$ -	\$ 19,281	\$ (19,281)

PASSED DISCLOSURES:

D1
 D2