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December 11, 2017

Honorable Mayor, Management and the City Council
City of Saginaw
1315 S. Washington Ave.
Saginaw, MI 48601

We have completed our audit of the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saginaw as of and for the year ended June 30, 2017, and have issued our report dated December 11, 2017. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The following appendices to this letter sets forth those communications as follows:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

We discussed these matters with various personnel in the City during the audit and we would be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the City Council, and others within the City, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.
Saginaw, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 1, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the financial statements. The Government has adopted Governmental Accounting Standards Board Statements (GASB) No. 77, *Tax Abatement Disclosures* and No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. Statements No. 77 and No. 80 were effective July 1, 2016. Statement No. 77 requires disclosures of tax abatement information. Statement No. 80 amends the blending requirements for component units. We noted no transactions entered into by the City during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 City of Saginaw's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Management's estimate of incurred but not reported health benefits, which is derived by using historical claims and information provided by the City's third party administrator.
- Management's estimate of other post-employment benefits, which is derived from a calculation including factors such as: life expectancy, historical insurance costs, probability of retirement, and the applicable federal interest rates in effect at the time of the calculation.
- Managements estimate of an allowance for doubtful accounts, which is based on management's judgement of collectability and aging of the accounts receivable balances.
- Management's estimate of the amount due within one year for compensated absences, which is calculated as the average of the previous three years of claims.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 81, *Irrevocable Split-Interest Agreements* is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

Statement No. 87, *Leases* is to improve accounting and financial reporting for leases. 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.

The City is evaluating the impact the above GASB's will have on its financial reporting.

Regulatory and Other Updates

Chart of Accounts

The Michigan Department of Treasury released a new version of the uniform chart of accounts in April 2017. Significant changes were made which expanded the breadth of information now available to governmental entities. We encourage your City to review the uniform chart of accounts to ensure the accounting records are in compliance with the guidelines set forth in the expanded version. The uniform chart of accounts is available on the Michigan Department of Treasury's website at http://www.michigan.gov/documents/uniformchart_24524_7.pdf. If questions arise from your review of this information please contact us for assistance.

Unclaimed Property

Beginning in 2018, the State of Michigan will require the filing of zero balance reports for businesses and governmental agencies who hold property on behalf of others, such as uncashed payroll or vendor checks and other items comprising unclaimed property. This is a revision from the most recent change in 2012, which only encouraged, but did not require, reporting of zero unclaimed property situations. Under the negative attestation requirement, businesses and governmental agencies must ensure they are filing even in situations where entities have no unclaimed property.

Current rules require unclaimed property to be identified as of March 31st of each year and reported to the State on or before July 1. Property that has reached its applicable dormancy period (generally one year or three years) as of March 31 must be remitted with and reported on Michigan State Form 2011, *Michigan Holder Transmittal for Annual Report of Unclaimed Property* and the appropriate annual reporting form (there are separate forms for cash & safe deposit boxes and for securities). If the holder (business or government entity) has more than ten items to report, they must use electronic media for the annual report. The due date for this filing is July 1 (or the next work day if the 1st is on a weekend).

These rules remain unchanged, except that beginning in 2018, the negative attestation requirement will go into effect. Free software is available on the State of Michigan web site at <http://www.michigan.gov/treasury/>. The web site is a valuable resource for information regarding the law, filing requirements and related penalties, including the 33 page *Manual for Reporting Unclaimed Property*.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted the all adjustments, except those described below.

The following material misstatement was detected as a result of our audit procedures and corrected by management:

- The adjustment to the net pension liability in accordance with GASB 68 required material adjustments to the governmental activities and most business type funds. The magnitude of this entry varied by fund, with one of the largest entries being to the Sewer Fund for around \$30,000,000 to the net pension liability.

Management has determined that the effects of the uncorrected misstatements below are immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

- The Major Streets Fund recognized \$41,112 of revenue in fiscal year 2017 that was applicable to fiscal year 2016.
- The General Fund recognized \$52,452 of capital lease proceeds and capital outlay expenditures in fiscal year 2017 that were related to capital leases entered into in fiscal year 2016.

Disagreements with Management

For purposes 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 auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Emphasis of Matters in Independent Auditors' Report

The City posted a prior period adjustment to include the Public Employee Healthcare Fund in the governmental activities. Our report will therefore include the following emphasis of a matter paragraph:

As discussed with Note 18 to the financial statements, the 2016 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, municipal employees retirement system schedules, other post-employment benefit schedules, and budgetary comparison information, we applied certain limited procedures to the required supplementary 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.

Report on Other Supplementary Information

With respect to the supplementary information accompanying the financial statements, other than list of Elected and Appointed Officials, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Comprehensive Annual Financial Report

The City's audited financial statements are included in its comprehensive annual financial report. Our responsibility for the other information contained in the comprehensive annual financial report does not extend beyond the financial information identified in our audit report. We do not have an obligation to perform any procedures to corroborate the other information contained in the introductory section and statistical section. However, we read the other information and considered whether such information, or the manner of its presentation was materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, was materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Appendix II
Matters for Management's Consideration

In planning and performing our audit of the financial statements of the City of Saginaw as of and for the year ended June 30, 2017, we considered the City of Saginaw's internal control over financial reporting (internal control) as a basis for designing our audit procedures 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of the following matters for management's consideration that are opportunities for strengthening internal controls. This letter does not affect our report dated December 11, 2017, on the financial statements of the City of Saginaw. Our comments and recommendations regarding those matters are:

DEFICIT FUND BALANCES

The Community Development Fund has an unassigned deficit of \$276,403. The deficit is completely offset by deferred inflows of resources, and therefore does not require a deficit elimination plan to be filed.

The Andersen Center Operation Fund has an unassigned deficit of \$49,130. This deficit is the result of operating deficits. The City has filed a deficit elimination plan with the State of Michigan for the Andersen Center Operation Fund and is currently ahead of schedule for the elimination. We recommend the City maintain tight budgetary controls over this fund to ensure timely elimination of the deficit.

OTHER POST-EMPLOYMENT BENEFITS CENSUS DATA

Our audit involves census data testing of employees eligible for other post-employment benefits (OPEB). As a part of this testing we verify the data included in the census spreadsheet agrees to the underlying employee files. We identified that an employee's date of hire in the census data did not agree to the actual date of hire of the employee. Now, more than ever, it is important for the City to maintain accurate OPEB census data because the City will implement GASB 75 during fiscal year 2018. GASB 75 requires the net OPEB liability be recorded on the statement of net position, which will be based on inputs from the census data.

We recommend the human resources department sample OPEB census data annually to verify eligibility and accuracy of the data.