



November 20, 2018

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, 2018, and have issued our report dated November 20, 2018. 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 first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the City during the audit and with management. We would also 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, 2018. 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 City has adopted Governmental Accounting Standards Board Statements effective July 1, 2017:

- No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement improves the financial reporting of postemployment plans other than pensions through enhanced note disclosures and schedules of required supplementary information along with recording the total OPEB liability.
- No. 85, *Omnibus 2017*. The Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)).

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 statement 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'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.
- Incurred but not reported claims. Management's estimate is derived by using historical claims and information provided by the City's third party administrator.
- Total other post-employment liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Allowance for doubtful accounts. Management's estimate is based on the judgement of collectability and aging of the accounts receivable balances.

- Compensated absences. Management's estimate of accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

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 and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in Note 1 of the financial statements.

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 the 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.

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 all adjustments.

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.

There were no uncorrected misstatements that were more than trivial.

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

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the City adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors’ 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*; Independent Auditors’ Report on Compliance For Each Major Federal Program; Independent Auditors’ Report on Internal Control Over Compliance; Independent Auditors’ Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant 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 postemployment 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 regarding 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 other supplementary information accompanying the financial statements, other than the 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.

CAFR

The City's audited financial statements are included in their 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, 2018, 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 November 20, 2018, 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 \$370,492. 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 \$24,117. 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.

CREDIT CARD ACCEPTANCE POLICY

Written policies and procedures convey management's philosophies that assets are safeguarded, financial statements are in conformity with generally accepted accounting principles, and finances are managed with responsible stewardship. Certain policies are required to be approved by resolution of the City Council. Although the City has written, Council-approved agreements for credit card transactions, as well as an acceptance policy in Treasury, the City does not have a resolution approving the adoption of a credit card acceptance policy. A resolution adopting this policy is required by MCL 129.221-129.224 for any City accepting payment by credit card.

We recommend management develop and the City Council adopt a resolution for a credit card acceptance policy in accordance with the compliance requirements of MCL 129.221-129.224.