



November 26, 2019

Honorable Mayor and City Council
City of Saginaw
Saginaw, Michigan

We have audited 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 (the City) as of and for the year ended June 30, 2019, and have issued our report dated November 26, 2019. 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.

Our communication includes the following:

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

The matter for management's consideration is not required to be communicated but we believe is valuable for management.

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.

This information is intended solely for the information and use of the City Council and management of the City and is not intended to be, and should not be, used by anyone other than these 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 the 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 3, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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 the footnotes of the financial statements. The City has adopted the following Governmental Accounting Standards Board Statement effective July 1, 2018:

- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

We noted no transactions entered into by the City during the year for which 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 health benefits. Management's estimate is derived by using historical claims and information provided by the City's third party administrator.
- Total OPEB 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.

The financial statement disclosures are neutral, consistent and clear.

Accounting Standards

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

Regulatory Update

Pension and OPEB Reporting – Form 5572

Public Act 202 of 2017 required governments to prepare additional reporting for pension and OPEB plans using Form 5572 (due 6 months after the end of your fiscal year). A memo was issued September 25, 2018 by Treasury regarding the application of uniform assumptions. For the purpose of reporting Form 5572, Treasury requires uniform assumptions to be included on Form 5572 for fiscal years ending 2019, if the audited financial statements were based on an actuarial valuation issued after December 31, 2018. Reporting of pension and OPEB liabilities under the uniform assumptions is required no later than fiscal years ending 2020 in all other cases. The full memo can be found at the following address:

https://www.michigan.gov/documents/treasury/FY_2020_Uniform_Assumptions-Treasurer_Approved_669313_7.pdf

Uniform assumptions will be used by Treasury to increase comparability of pension and OPEB plans from one municipality to the next. Treasury recommends all actuarial valuations issued after December 31, 2018 include the provisions of the uniform assumptions. It is important to consider whether using the uniform assumptions for the measurement of your municipality's pension or OPEB liabilities are appropriate under GAAP, or whether the liabilities should be calculated using two sets of assumptions. If using two sets of assumptions is appropriate, both amounts will be reported to Treasury.

Treasury has issued the following as the uniform assumptions for 2020:

Fiscal Year 2020 Assumptions		
Assumption	Uniform Assumption	Change from Fiscal Year 2019
Investment Rate of Return	Maximum of 7.00%	None
Discount Rate	Blended discount rate calculated using GASB Statements No. 68 and 75 methodology For periods in which projected plan assets are Sufficient to make Projected Benefit Payments: <u>Maximum of 7.00%</u> For periods in which projected plan assets are Not Sufficient to make Projected Benefit Payments: <u>3.50%</u>	Increased the blended rate from 3% to 3.50% for periods in which plan assets are <u>not</u> sufficient to make projected benefit payments
Salary Increase	A minimum of 3.50% or based on an actuarial experience study conducted within the last five years	None
Mortality Table	A version of the Pub-2010 mortality tables with future mortality improvement projected generationally using Scale MP-2018 or based on an actuarial experience study conducted within the last five years	Changed from RP-2014 to Pub-2010 tables; Generational mortality improvement using Scale MP-2018
Health care Inflation (for Medical and Drug) ¹	Non-Medicare: Initial rate of 8.25% decreasing .25% per year to a 4.50% long-term rate Medicare: Initial rate of 6.50% decreasing .25% per year to a 4.50% long-term rate	Non-Medicare: Initial rate reduced from 8.50% to 8.25% Medicare: Initial rate reduced from 7.00% to 6.50%
Amortization of the Unfunded Actuarial Accrued liability	Local governments must amortize the unfunded actuarial accrued liability (UAAL) over a maximum closed period of: <ul style="list-style-type: none"> • Pension Systems: 19 Years • Retiree Health Care Systems: 29 Years Closed plans must use a level-dollar amortization method Open plans may use a level-dollar or percent of pay amortization method	Pension: Closed period reduced from 20 years to 19 years Health Care: Closed period reduced from 30 years to 29 years

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 us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial. Management has corrected all such misstatements.

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 each opinion unit's financial statements taken as a whole.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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.

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.

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

We applied certain limited procedures to the management's discussion and analysis, municipal employees retirement system schedules, other postemployment benefit schedules, and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures 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. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Report on Other Supplementary Information

We were engaged to report on other supplementary information as described in the table of contents of the financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

We were not engaged to report on the list of Elected and Appointed Officials, which accompany the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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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
Matter for Management's Consideration

In planning and performing our audit of the financial statements of the City as of and for the year ended June 30, 2019, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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 matter for management's consideration that is an opportunity for strengthening internal controls. This letter does not affect our report dated November 26, 2019, on the financial statements of City of Saginaw. Our comment and recommendation regarding that matter are:

Obsolete Inventory

Various inventory observations were performed as a normal part of our auditing procedures. We discussed this matter with individuals overseeing inventory and made observations of the general condition of inventory during this time. There appears to be multiple items within the City's inventory that should be reviewed for obsolescence.

We recommend that departments work on eliminating obsolete inventory by way of disposal of inventory, selling inventory through online auction, and budgeting funds to cover the cost of obsolete inventory in order to remove them from the appropriate inventory system.