

## INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

November 5, 2018

Honorable Mayor and  
Members of the City Council  
of the City of Grand Blanc, Michigan  
Grand Blanc, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Grand Blanc, Michigan* (the "City") as of and for the year ended May 31, 2018, and have issued our report thereon dated November 5, 2018. Professional standards require that we advise you of the following matters relating to our audit.

### Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 6, 2018, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also 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 for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated November 5, 2018. In addition, we noted certain other matters which are included in Attachment A to this letter

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on September 10, 2018.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

### **Qualitative Aspects of the City's Significant Accounting Practices**

#### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- The assumptions used in the actuarial valuations of the other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension asset and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

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### **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. 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.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in Attachment C to this letter.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information

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in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. 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.

#### Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the *City of Grand Blanc, Michigan* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Lohman LLC". The signature is written in a cursive, flowing style.

# CITY OF GRAND BLANC, MICHIGAN

## Attachment A - Comments and Recommendations

For the May 31, 2018 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the City's internal control over financial reporting is described in our report, dated November 5, 2018, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated November 5, 2018, on the financial statements of the City of Grand Blanc.

### Other Matter

#### Joint Venture Agreements (Repeat)

We were unable to verify that the City has a current agreement for the joint ventures with the Parks and Recreation, Community Fire, or the District Library Commissions. Management noted each agreement is anticipated to be available for the 2019 fiscal year. We recommend that the City create an agreement with the Parks and Recreation Commission and the District Library Commission that would support the equity interest for each party. In addition, we recommend that the City update the Community Fire Commission agreement to clearly state how the assets would be divided upon dissolution of the Commission.

#### Budgeted Deficit

During our audit, we noted the City budgeted an increased deficit in the local streets special revenue fund. Per Act 80 of 1981 MCL 141.1001 et al, the budgeted expenditures, including an accrued deficit, shall not exceed budgeted revenues, including available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations.



# CITY OF GRAND BLANC, MICHIGAN

## Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the May 31, 2018 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

### **GASB 83 ■ Certain Asset Retirement Obligations**

*Effective 06/15/2019 (your FY 2020)*

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the City.

### **GASB 84 ■ Fiduciary Activities**

*Effective 12/15/2019 (your FY 2020)*

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, we will continue to assess the degree to which this standard may impact the City.

### **GASB 85 ■ Omnibus 2017**

*Effective 06/15/2018 (your FY 2019)*

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the City.

### **GASB 86 ■ Certain Debt Extinguishment Issues**

*Effective 06/15/2018 (your FY 2019)*

This standard provides guidance for reporting the in-substance defeasance of outstanding debt obligations using existing resources. Qualifying transactions will remove both the assets placed into trust and the related debt obligation from the government's statement of net position. We do not expect this standard to have any significant effect on the City.

### **GASB 87 ■ Leases**

*Effective 12/15/2020 (your FY 2021)*

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

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### **GASB 88 ■ Certain Disclosures Related to Debt**

*Effective 06/15/2019 (your FY 2020)*

This standard provides guidance on note disclosures related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. We do not expect this standard to have any significant effect on the City.

### **GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period**

*Effective 12/15/2020 (your FY 2021)*

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the City.

### **GASB 90 ■ Majority Equity Interests**

*Effective 12/15/2019 (your FY 2020)*

This standard addresses situations in which a government acquires a majority of the equity interest in a legally separate organization, and whether such holdings should be reported as an investment or a component unit. We do not expect this standard to have any significant effect on the City.



# CITY OF GRAND BLANC, MICHIGAN

## Attachment C - Management Representations

For the May 31, 2018 Audit

The following pages contain the written representations that we requested from management.



# CITY OF GRAND BLANC, MICHIGAN

## Schedule of Adjustments Passed (SOAP)

For the May 31, 2018 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Equity	Revenues	Expenditures
<b>Governmental activities</b>					
Improper recognition of delinquent property tax revenue in prior year	\$ -	\$ -	\$ 42,470	\$ (42,470)	\$ -
Overstatement of prior year capital assets	-	-	35,346	-	35,346
<b>Total governmental activities</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,816</u>	<u>\$ (42,470)</u>	<u>\$ 35,346</u>
<b>Misstatement as a percentage of total assets - governmental activities</b>	0.0%	0.0%	0.5%	-0.3%	0.2%