

**CITY OF WATERLOO**

Waterloo, Wisconsin

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2019

# CITY OF WATERLOO

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**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS  
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

To the City Council  
City of Waterloo  
Waterloo, Wisconsin

In planning and performing our audit of the financial statements of the City of Waterloo as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

A separate Communication to Those Charged with Governance and Management was issued to the Waterloo Water and Light Commission. The information contained in that report is not included with this report.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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 deficiencies in the city's internal control to be material weaknesses:

- > Internal Control Over Financial Reporting
- > Internal Control Environment

This communication is intended solely for the information and use of management, the city council, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
April 6, 2020

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of significant transaction cycles and an analysis of the year-end financial reporting process and preparation of your financial statements.

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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Properly designed systems of internal control provide your organization with the ability to process and record accurate monthly and year-end transactions and annual financial reports.

Our audit includes a review and evaluation of the internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- > There is adequate staffing to prepare financial reports throughout the year and at year-end.
- > Material misstatements are identified and corrected during the normal course of duties.
- > Complete and accurate financial statements, including footnotes, are prepared.
- > Financial reports are independently reviewed for completeness and accuracy.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered material weakness surrounding the preparation of financial statements and footnotes, adjusting journal entries identified by the auditors, and an independent review of financial reports.

Management has not prepared financial statements that are in conformity with generally accepted accounting principles. In addition, one material misstatement in the general ledger was identified during the financial audit.

This level of internal control over financial reporting can be a difficult task for governments that operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to propose certain year-end audit entries and financial statements

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## **INTERNAL CONTROL ENVIRONMENT**

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A properly designed system of internal control includes adequate staffing as well as policies and procedures to properly segregate duties. This includes systems that are designed to limit the access or control of any one individual to your government's assets or accounting records, and to achieve a higher likelihood that errors or irregularities in your accounting processes would be discovered by your staff in a timely manner.

At this time, due to staffing and financial limitations, the proper internal controls are not in place to achieve adequate segregation of duties. As a result, errors, irregularities or fraud could occur as part of the financial reporting process that may not be discovered by someone in your organization. Therefore, we are reporting a material weakness related to the internal control environment.

There are also certain controls that are not currently in place related to significant transaction cycles. As a result, there is a risk that erroneous or unauthorized transactions or misstatements could occur without the knowledge of management or the governing body. Our recommendations for strengthening controls are listed below.

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**INTERNAL CONTROL ENVIRONMENT (cont.)**

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***CONTROLS OVER ACCOUNTS PAYABLE/DISBURSEMENTS***

- > Persons processing accounts payable and those with access to the system should be separate from those ordering or receiving goods or services.
- > There should be an appropriate system for review and approval of vendors.

***CONTROLS OVER PAYROLL***

- > Persons preparing the payroll should be independent of other personnel duties and restricted from access to the payroll account.

***CONTROLS OVER PROPERTY TAXES***

- > Batch collections should be reconciled from the general ledger to the tax collection system by someone independent of the process.
- > Bank reconciliations for the tax account should be performed by someone independent of the tax collection process.

***CONTROLS OVER MONTHLY AND YEAR-END ACCOUNTING***

- > Account reconciliations prepared throughout the year should be performed by someone independent of processing transactions in the account.
- > Year-end reconciliations should be reviewed and approved by someone other than the preparer.

***CONTROLS OVER ELECTRONIC FUND TRANSFERS***

- > A separate review/approval should be required for all wire transfers.

We recommend that a designated employee review the segregation of duties, risks, and these potential controls and determine whether additional controls should be implemented. This determination should take into consideration a cost / benefit analysis.

## **OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**

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## TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
  - > Identify types of potential misstatements.
  - > Consider factors that affect the risks of material misstatement.
  - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.
- d. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the city council has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?



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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)**

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Also, is there anything that we need to know about the attitudes, awareness, and actions of the city concerning:

- a. The city's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may perform preliminary audit work during the months of October-December, and sometimes early January. Our final fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS,  
AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT  
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

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## INFORMATIONAL POINTS

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### ***IMPACT FEE SPEND-DOWN REQUIREMENTS***

The city currently collects impact fees under Wisconsin State statute 66.0617. Revenues collected from impact fees are required to be placed in a segregated, interest-bearing account. Impact fee revenues and interest earned on impact fee revenues may only be expended on capital items for which the impact fees were imposed.

Statute 66.0617 was first amended by the 2005 Wisconsin Act 203 and later by the 2007 Wisconsin Act 44. These acts modified spend-down requirements as follows:

- > An impact fee that was collected before January 1, 2003, must be used for the purpose for which it was collected no later than December 31, 2012. If the fee was not used by that date, it was to be refunded to the current owner of the property, along with any accumulated interest.
- > Impact fees that are collected after April 10, 2006 and collected within seven (7) years of the effective date of the ordinance imposing the fees must be used within ten (10) years of collection with a possibility of extending the time for an additional three (3) years under extenuating circumstances or hardship.
- > An impact fee that is collected after April 10, 2006 and collected more than seven (7) years after the effective date of the ordinance must be used within a reasonable period of time after they are collected to pay the capital costs for which they were imposed, or they shall be refunded to the current property owner, along with any accumulated interest.

We recommend that management review the impact fee ordinance, collections, and eligible costs to ensure compliance with the spend-down requirements.

### ***RESOURCES FOR STATE AND LOCAL GOVERNMENT BOARDS***

Expectations and accountability are at all-time high and the knowledge required to be an effective board member is substantial. As a benefit to our clients, we have compiled a number of resources dedicated to educating state and local government board members. Go to our Board Governance Resource Center at [www.bakertilly.com/board-governance](http://www.bakertilly.com/board-governance) for more information.

The Resource Center includes the following:

#### **Podcasts**

1. Managing cyber threats: Developing a sustainable cybersecurity program to address your unique risks
2. Understanding utility finances
3. Benefits of a fraud risk assessment
4. Financial ratios and benchmarks
5. Fund balance and other financial policies

#### **Articles**

1. Securitization of deposits and investments
2. Five easy internal controls your government should implement
3. Fund balance levels: What works for your government?
4. The importance of smart spending cuts

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## **INFORMATIONAL POINTS (cont.)**

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### ***RESOURCES FOR STATE AND LOCAL GOVERNMENT BOARDS (cont.)***

We encourage you to subscribe to our complimentary newsletter “Government Connection” to stay abreast of the latest issues impacting state and local governments. You can do so by clicking on the “subscribe” button and indicating “State and Local Government” as an area of interest on the subscription form. Also, if you or your board members have suggested topics to feature on our Board Governance webpage or Government Connection newsletter, we invite you to submit your ideas in person or online.

### ***UPCOMING LEASE STANDARD***

In June 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This standard is effective for fiscal years ending on or after December 31, 2020. Statement No. 87, Leases, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognize as inflows of resources or outflow of resources based on the payment provisions of the contract.

Under the new standard, a lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined by 1) the right to obtain the present service capacity from the use of the underlying asset and 2) the right to determine the nature and manner of use of the underlying asset. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this statement. Leases include contracts that, although not explicitly identified as leases, meet the above definition of a lease.

There are some exemptions outlined in the standard including, intangible assets, service concession arrangements and supply contracts.

We recommend city review this standard and start planning how this will affect your financial reporting. An inventory of all contracts that might meet the definition of a lease should be started. The contract listing should include key terms of the contracts such as:

- > Description of contract
- > Underlying asset
- > Contract term
- > Options for extensions and terminations
- > Service components, if any
- > Dollar amount of lease

In addition, the city should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

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## CURRENT YEAR POINTS

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### ***MINIMUM FUND BALANCE POLICY***

The City has a formal minimum fund balance policy. The policy is to maintain a working capital fund of 25% - 33% of the current year general fund final budgeted expenditures. The balance at the year-end for 2018 and 2019 was \$69,571 or 3.4% and \$0 or 0%, respectively.

### ***BUDGET REQUIREMENTS***

Wisconsin state statutes regarding municipal budgeting specify the information that should be incorporated into the city's class 1 notice regarding the budget public hearing and the budget document adopted by the city.

The city's budget notice should include the following items:

- A. Summary budget for the proposed budget, the budget in effect and the percentage changed between the budget of the current year and the proposed budget. A summary budget would include:
  - 1. All expenditures by major expenditure category for general fund.
  - 2. All revenues by major revenue source for general fund.
  - 3. Any financing source and use not included in 1. and 2. above.
  - 4. All beginning and year-end fund balances for all funds.
  - 5. Total revenues and expenditures for each fund.
  - 6. Summary totals of revenues and expenditures (all funds).
  - 7. Local property taxes for each fund and the total for all funds.
  - 8. List of budget increases and decreases due to new or discontinued activities.
- B. The place where the budget, in detail, is available for public inspection.
- C. The time and place for holding the public hearing.

The budget document is required to include these items:

- A. List all existing indebtedness.
- B. Actual revenues and expenditures of the preceding year.
- C. Actual revenues and expenditures for not less than the first six months of the current year and estimated revenues and expenditures for the balance of the year.
- D. All anticipated revenue from all sources and all proposed appropriations for the ensuing year (proposed budget).
- E. All anticipated unexpended or unappropriated balances and surpluses for each fund.

We recommend that the city review state statutes pertaining to municipal budgets. When preparing the city budget, you should include all of the items mentioned above.

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## PRIOR YEAR POINTS

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### ***FIRE DEPARTMENT ACCOUNTS***

During the 2018 audit, it was noted that the Fire Department had two bank accounts that were using the city's Tax ID number. However, these accounts were not being controlled by the city, nor were they recorded in the city's accounting system. These accounts were supposed to be converted to a non-municipal account per Resolution #2007-58.

#### ***Status (12/31/19)***

It is our understanding that these accounts were converted into a new account not using the city's Tax ID number in 2019. This point is considered resolved.

### ***TIF ADVANCE***

One of the city's tax incremental financing (TIF) districts is currently relying upon other funds of the city. While it is not unusual for active TIF districts to rely upon or borrow from other funds during their earlier years, it also requires careful monitoring through what is called TIF projections. Performing TIF projections is not something that is within the scope of an audit. The distinction is that an audit looks back to determine the current status of a TIF, while a projection attempts to estimate the long-term viability of a TIF, including whether or not it will be able to meet its debt obligations during its life.

We recommend the city continue to update its TIF projections, including the amounts other funds have advanced or borrowed to the TIFs.

As of December 31, 2019, the following TIF District had an advance recorded from the General Fund:

413 TIF No. 3 (recorded as an advance)	<u>\$ 749,472</u>
Total	<u><u>\$ 749,472</u></u>

Your community's long-term success is important. As a governing body, your involvement and understanding of your community's financial activities will help you make informed decisions regarding the future of your community.

### ***TAX LEVY AMOUNTS***

During the 2017 and 2018 audits, it was noted that the city did not levy the full amount available per the levy limits set by the State of Wisconsin. We understand that this was based on an unwritten city policy to not levy for debt service payments. It is our recommendation that the city consider the need to levy the maximum amount allowable under State statutes.

#### ***Status (12/31/19)***

The city still did not levy the full amount allowable for debt service payments in 2019.

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## **PRIOR YEAR POINTS (cont.)**

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### ***UNCOLLATERALIZED DEPOSITS***

Governmental Accounting Standards Board (GASB) Statement No. 40 requires disclosures about deposits and investments. One of the main purposes of GASB Statement No. 40 is to indicate to users of financial statements the custodial risks involved with an entity's deposits and investments. These disclosures are included in the notes to your financial statements.

Here are the current rules.

- > In-state accounts (deposits are held in an institution in the same state where the government is located)
  - 1) Up to \$250,000 for the combined amount of all time (CDs) and savings deposits (includes NOW accounts and money market deposit accounts)
  - 2) Up to \$250,000 for all demand deposit accounts (defined as "deposits payable on demand and for which the depository institution does not reserve the right to require advanced notice of withdrawal")
- > Out-of-state accounts (deposits are held in an institution outside of the state where the government is located)
  - 1) Up to \$250,000 for the combined total of all deposit accounts

### ***Status (12/31/19)***

As of December 31, 2019, the city had \$947,004 of uncollateralized deposits with its banks. We recommend that the city evaluate this to determine if further action is necessary. We also recommend the city review their collateral agreements with the banks to ensure the safety of its deposits.

### ***DECENTRALIZED CASH COLLECTIONS***

Many governments collect cash at numerous decentralized locations that are separate from the primary system of accounting procedures and controls. The opportunity for theft is often higher at those locations because one person is frequently involved in most, if not all, aspects of a transaction (i.e., lack of segregation of duties).

Examples in your government that fit this situation include: library, police and parks.

Management is responsible for designing and implementing controls and procedures to detect and prevent fraud. As a result, we recommend that management review its decentralized cash collection procedures and controls on a periodic basis and make changes as necessary to strengthen the internal control environment. Reviewing the adequacy of the controls is a responsibility of the governing body.

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**PRIOR YEAR POINTS (cont.)**

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***DECENTRALIZED CASH COLLECTIONS (cont.)***

Below are example procedures and controls to help mitigate the risk of loss at decentralized cash collection points:

- > Implement a centralized receipting process with adequate segregation of duties
- > For cash collections, ensure pre-numbered receipts are being used and all receipts in the sequence are being reviewed by someone other than the person receipting the cash and receipts tie to deposits
- > Perform surprise procedures at decentralized locations (cash counts, walkthrough of processes, etc.)
- > Require regular cash deposits to minimize collection on-hand
- > Limit the number of separate bank accounts
- > Segregate duties as much as possible – the person receipting cash should be separate from the person preparing deposits and the person reconciling bank accounts should be separate from the cash collection activity
- > Perform a month-to-month or year-to-year comparison to look for unusual changes in collections
- > If collecting from a drop box site, consider sending two people to collect the funds, especially during peak times

As always, the cost of controls and staffing must be weighed against the benefits of safeguarding your assets.

***Status (12/31/19)***

This recommendation still pertains.



**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**

To the City Council  
City of Waterloo  
Waterloo, Wisconsin

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the City of Waterloo for the year ended December 31, 2019 and have issued our report thereon dated April 6, 2020. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you during our meeting with you on April 18, 2019 and in our letter about planning matters dated April 9, 2019.

## **QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES**

### ***Accounting Policies***

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 City of Waterloo are described in Note I to the financial statements. As described in Note 1, the city changed accounting policies related to financial reporting for fiduciary activities by adopting Governmental Accounting Standards Board (GASB) No. 84, *Fiduciary Activities*, in 2019. In addition, as described in Note 1, the city changed accounting policies related to financial reporting for debt disclosures by adopting Governmental accounting standards Board, (GASB) No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in 2019. Accordingly, these accounting changes have been retrospectively applied to prior periods presented as if the policies have always been used. We noted no transactions entered into by the City of Waterloo during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### ***Accounting Estimates***

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 financial statements were:

Management's estimate of the net pension liability, deferred outflows and deferred inflows related to pension are based upon information provided by the Wisconsin Retirement System. These also impact pension expense.

Management's estimate of the allowance for ambulance receivables is based on payment history for this type of receivable.

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.

### ***Financial Statement Disclosures***

The disclosures in the notes to 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 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.

Management has corrected all such misstatements.

The following is a summary of material financial statement misstatements (audit adjustments):

	<u>Amount</u>
To record Grant receivable from the Office of Energy Initiative	\$ 50,000

### ***CORRECTED AND UNCORRECTED MISSTATEMENTS (cont.)***

In addition, we prepared GASB No. 34 conversion entries which are summarized in the "Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position" and the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" in the financial statements.

### ***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 that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' 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.

### ***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

### ***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the City of Waterloo that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the City of Waterloo for the year ended December 31, 2019, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the City of Waterloo in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the City of Waterloo other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence, including:

- > Financial statement preparation
- > Adjusting journal entries
- > Compiled regulatory reports
- > Civic Systems software

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

#### ***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 of Waterloo'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 MATTERS***

We applied certain limited procedures to the 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.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the 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.

#### ***RESTRICTION ON USE***

This information is intended solely for the use of the city council and management and is not intended to be, and should not be, used by anyone other than the specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to work with you.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
April 6, 2020

## **MANAGEMENT REPRESENTATIONS**



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April 6, 2020

Baker Tilly Virchow Krause, LLP  
Ten Terrace Court  
P.O. Box 7398  
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Waterloo as of December 31, 2019 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterloo and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

#### **Financial Statements**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
- 2) The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.

- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, if any, are reasonable.
- 6) All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 7) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 8) All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
- 9) There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
- 10) Guarantees, whether written or oral, under which the City of Waterloo is contingently liable, if any, have been properly recorded or disclosed.

#### **Information Provided**

- 11) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.



- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
- 15) We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) There are no known related parties or related party relationships and transactions of which we are aware.

**Other**

- 17) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 18) We have a process to track the status of audit findings and recommendations.
- 19) We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 20) The City of Waterloo has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 21) We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 22) There are no:
  - a) Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
  - b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
  - c) Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
  - d) Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
  - e) Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

23) In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

- a) Financial statement preparation
- b) Adjusting journal entries
- c) Civic Systems software
- d) Compiled regulatory reports

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

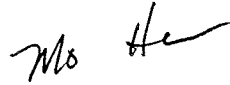
- 24) The City of Waterloo has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 25) The City of Waterloo has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
- 26) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any. Component units have been properly presented as either blended or discrete.
- 27) The financial statements properly classify all funds and activities.
- 28) All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 29) Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
- 30) The City of Waterloo has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
- 31) Provisions for uncollectible receivables, if any, have been properly identified and recorded.
- 32) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 33) Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
- 34) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 35) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

- 36) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
- 37) Tax-exempt bonds issued have retained their tax-exempt status.
- 38) We have appropriately disclosed the City of Waterloo's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
- 39) With respect to the supplementary information, (SI):
- a) We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b) If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 40) We assume responsibility for, and agree with, the information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.
- 41) We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.
- 42) All activities that meet the criteria in GASB Statement No. 84 for presentation as fiduciary activities have been identified and presented as such.
- 43) Any direct borrowings, direct placements, lines of credit or debt default clauses have been identified and properly disclosed.

Sincerely,

City of Waterloo

Signed: \_\_\_\_\_

  
Mo Hansen, Clerk/Treasurer