

# **CITY OF CEDARBURG**

Cedarburg, Wisconsin

## **COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT**

As of and for the Year Ended December 31, 2017

## CITY OF CEDARBURG

### TABLE OF CONTENTS

---

	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
Internal Controls over Financial Reporting	2
Other Communications to Those Charged with Governance	
Two Way Communication Regarding your Audit	3 - 4
Communication of Other Control Deficiencies, Recommendations and Informational Points to Management that are not Material Weaknesses or Significant Deficiencies	5 – 8
Required Communications by the Auditor to Those Charged with Governance	9 – 13
Management Representations	

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

To the Common Council  
City of Cedarburg  
Cedarburg, Wisconsin

In planning and performing our audit of the financial statements of the City of Cedarburg ("City") as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City's 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 opinion 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 of the effectiveness of its internal control.

A separate report on internal control was issued to the utility commission. The information contained in that report is not included with this letter.

Our consideration of internal control was for the limited purpose described in the preceding 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 deficiency in the City's internal control to be material weakness:

> Internal Controls over Financial Reporting

This communication is intended solely for the information and use of management, the Common 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*

Milwaukee, Wisconsin  
May 14, 2018

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 City's year-end financial reporting process and preparation of your financial statements.

---

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

---

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.

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 prepare certain year-end audit entries and financial statements.

## OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

---

## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT**

---

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.

---

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

---

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 Common 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?

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 do preliminary financial audit work during the months of October-December, and sometimes early January. Our final financial fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial 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**

---

## CONTROL DEFICIENCIES AND PROCEDURAL RECOMMENDATIONS

---

### *DEPARTMENTAL CONTROLS*

As part of our annual audit process, we focus our efforts on the primary accounting systems, internal controls, and procedures used by the City. This is in keeping with our goal to provide an audit opinion which states that the financial statements of the City are correct in all material respects.

In some cases, the primary system of accounting procedures and controls of the City are supported by smaller systems which are decentralized, and reside within a department or location. In many cases, those systems are as simple as handling cash collections and remitting those collections to the City treasurer. (For example, this would be the case in a typical municipal swimming pool.) In other cases, the department may send invoices or statements of amounts due, and track collections of those amounts in a standalone accounts receivable system.

Generally, the more centralized a function is, the easier it is to design and implement accounting controls that provide some level of checks and balances. That is because you are able to divide certain tasks over the people available to achieve some segregation of duties. For those tasks that are decentralized, it is usually very difficult to provide for proper segregation of duties. Therefore, with one person being involved in most or all aspects of a transaction, you lose the ability to rely on the controls to achieve the safeguarding of assets and reliability of financial records.

As auditors, we are required to communicate with you on a variety of topics. Since there is now more emphasis on internal controls and management's responsibilities, we believe it is appropriate to make sure that you are informed about the lack of segregation of duties that may occur at departments or locations that handle cash or do miscellaneous billing. Examples in your City that fit this situation include the following:

- Parks and Recreation
- Library
- Police department
- DPW
- Fire department

As you might expect, similar situations are common in most governments.

As auditors, we are required to focus on the financial statements at a highly summarized level and our audit procedures support our opinion on those financial statements. Departments or locations that handle relatively smaller amounts of money are not the primary focus of our audit. Yet, because of the lack of segregation of duties, the opportunity for loss is higher there than in centralized functions that have more controls.

Because management is responsible for designing and implementing controls and procedures to detect and prevent fraud, we believe that is important for us to communicate this information to you. We have no knowledge of any fraud that has occurred or is suspected to have occurred within the departments mentioned above. However, your role as the governing body is to assess your risk areas and determine that the appropriate level of controls and procedures are in place. As always, the costs of controls and staffing must be weighed against the perceived benefits of safeguarding your assets.

Without adding staff or splitting up the duties, your own day-to-day contact and knowledge of the operation are also important mitigating factors.

---

## **CONTROL DEFICIENCIES AND PROCEDURAL RECOMMENDATIONS (cont.)**

---

### ***TRACKING CAPITAL ASSETS***

During our review of the City's capital assets, we noted that the City does not maintain a complete listing of capital assets. We recommend that the City create an internal process to track historical cost, accumulated depreciation and book value for all capital assets.

---

## **STATUS OF PRIOR YEAR COMMENTS**

---

1. General Fund Advance to Other Funds – this point has been addressed.
  2. Updating Fund Balance Policy – this point has been addressed.
- 

## **INFORMATIONAL POINTS**

---

### ***CYBER SECURITY***

Cybersecurity continues to be a top concern and is critical for governments of all sizes and types. Information demands from the board and directors, citizens/customers, investors and analysts, and industry regulators continue to increase which makes it critical to ensure key data is protected. Potential business impacts on security incidents can include:

- > Lost IP
- > Business interruption
- > Regulatory fines and penalties
- > Legal and PR fees
- > Remediation costs
- > Reputation

AICPA has recently developed a cybersecurity risk management reporting framework that includes a new System and Organization Controls (SOC) for Cybersecurity engagement, through which the enterprise-wide cybersecurity risk management program is reviewed. Although not required for governments, this new standard can be used to help the City begin to put in place a cybersecurity program.

We recommend reviewing this new standard and performing an initial cyber-risk assessment to identify the types and location of data on your system as well as considering the sensitivity or potential regulations associated with your data. Once this is done the cybersecurity program objectives can be further defined so informed decisions can be made.

Our professionals are also available to assist with your cybersecurity questions, assessments, and programs.

---

## INFORMATIONAL POINTS (cont.)

---

### *GOVERNMENT FRAUD PREVENTION AND DETECTION: VENDOR FRAUD*

Vendor fraud poses a unique threat to governments. Due to the public and transparent nature of operations, government entities have an increased susceptibility for this type of criminal activity. Since governments publish a significant amount of information online — for example, meeting minutes, which often contain vendor names, contract amounts and project status — it is easier for fraudsters to create falsified documents.

Fraud specialists have noted recent fraud cases where criminals falsified vendor change requests for legitimate vendors, including company addresses and bank account information for Electronic Fund Transfers (EFT). When governments unwittingly process these fraudulent changes, the perpetrators can collect payments on legitimate and approved vendor invoices — while legitimate vendors go unpaid. Preventing vendor fraud completely may be impossible; however, governments can go a long way towards protecting themselves by taking appropriate safety and control measures.

Help ensure your vendor transactions are secure and authentic by:

- > Performing a risk assessment that focuses on vendor accounts payable activities.
- > Periodically revisiting your control activities
- > Educate your employees on potential fraud schemes
- > Identify which vendors may be high-risk targets.

Our fraud experts are also available to assist with your fraud risk questions, assessments, and programs.

---

## INFORMATIONAL POINTS (cont.)

---

### ***GASB UPDATES***

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, your government will have many new standards to evaluate and implement.

There were two significant GASB statements issued in 2017. While the implementation dates for these are a few years away, they are anticipated to have significant impacts on many government financial statements:

- > GASB 84 improves guidance regarding the identification of Fiduciary Activities and how they should be reported, effective for years ending December 31, 2019
- > GASB 87 improves accounting and financial reporting for Leases, effective for years ending December 31, 2020

Looking even further ahead, the Technical Agenda, below, outlines significant areas GASB is currently working on:

- > Major Projects
  - Financial Reporting Model
  - Revenue and Expense Recognition
- > Practice Issues
  - Capitalization of Interest Cost
  - Conduit Debt
  - Debt Disclosures
  - Equity Ownership Issues
  - Implementation Guidance
- > Pre-Agenda Research
  - Going Concern
  - Cloud Computing
  - Note Disclosure reexamination
  - Public-Private Partnerships
  - Social Impact Bonds

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

Full lists of projects, as well as many resources, are available on GASB's website which is located at [www.gasb.org](http://www.gasb.org).

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



To the Common Council  
City of Cedarburg  
Cedarburg, 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 Cedarburg ("City") for the year ended December 31, 2017, and have issued our report thereon dated May 14, 2018. 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 the Common Council 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 in our Communication to Those Charged with Governance and Management dated May 8, 2017.

To the Common Council  
City of Cedarburg

### ***Qualitative Aspect of Accounting Policies***

#### ***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 are described in Note I to the financial statements. No new policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the City of Cedarburg 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 are:

- > Management's estimate of the net pension liability and the deferred outflows and deferred inflows related to pensions which impact the reported pension expense are based on information provided by the Wisconsin Retirement System.
- > Management's estimate of the City's portion of the pollution remediation liability with Prochnow Landfill.

We evaluated the key factors and assumptions used to develop this estimate in determining that it is 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 difficulties in dealing with management in performing our audit.



To the Common Council  
City of Cedarburg

***Corrected 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.

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.

In addition, we prepared the 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.

To the Common Council  
City of Cedarburg

### ***Independence***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the City of Cedarburg 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 for the year ended December 31, 2017, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the City of Cedarburg 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 Cedarburg other than services provided in connection with the audit of the current year's financial statements and the following non-audit services which in our judgment do not impair our independence.

- > Financial statement preparation
- > Adjusting journal entries
- > Compiled TIF financial statements
- > Compiled regulatory reports

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'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.

To the Common Council  
City of Cedarburg

***RESTRICTIONS ON USE***

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

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

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin  
May 14, 2018

## MANAGEMENT REPRESENTATIONS



May 14, 2018

Baker Tilly Virchow Krause, LLP  
777 E Wisconsin Ave  
32nd Floor  
Milwaukee, WI 53202

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Cedarburg as of December 31, 2017 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, each major fund, and the aggregate remaining fund information of the City of Cedarburg 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 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 balance sheet 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 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 Common 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 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. Compiled TIF financial statements
  - 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 Cedarburg 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 Cedarburg 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.
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 Cedarburg 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 Cedarburg'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. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
40. 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.



41. We assume responsibility for, and agree with, the findings of specialists in evaluating the pollution remediation liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
42. 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.

Sincerely,

City of Cedarburg

Signed:



Ms. Christy Mertes, City Administrator

Signed:



Mr. Michael O'Keefe, Mayor