



Certified Public Accountants

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May 6, 2010
City of Whitewater
Whitewater, Wisconsin

In planning and performing our audit of the financial statements of the City of Whitewater, Wisconsin for the year ended December 31, 2009, we considered the City's internal control as basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

Our comments are summarized on the following page. This letter does not affect our report dated May 6, 2010, on the financial statements of City of Whitewater, Wisconsin.

We will be pleased to discuss these comments in further detail at your convenience. We thank the City staff for help during the audit and we welcome any questions you have concerning the audit or other financial matters.

A handwritten signature in cursive script that reads 'Johnson Block & Company, Inc.'.

Johnson Block & Company, Inc.
Certified Public Accountants
Madison, Wisconsin

CURRENT YEAR COMMENT

Future Accounting Standard

The Governmental Accounting Standards Board recently issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for periods beginning after June 15, 2010. Some of the major changes are as follows:

A) Governmental Fund Balance Reporting

The reporting of governmental fund balances as reserved, unreserved or designated will be replaced with five possible classifications of governmental fund balances. They are as follows:

- Nonspendable Fund Balance
- Restricted Fund Balance
- Committed Fund Balance
- Assigned Fund Balance
- Unassigned Fund Balance

The goal of these new classifications is to report governmental balances based on a hierarchy that shows, from the highest to the lowest, the level or form of constraints on fund balance and, accordingly, the extent to which the government is bound to honor them.

In order to report fund balance as committed, the amounts must be constrained for a specific purpose by the government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources. In addition, action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

Statement No. 54 requires fund balances to be restated for the prior year when comparative financial statements are presented.

B) Fund Definition

The most significant change is the definition of a special revenue fund. The definition under GASB No. 54 is: "Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The basis for the special revenue fund should be from a revenue source that is either restricted or committed. That restricted or committed revenue source should be expected to represent a substantial portion of the inflows reported in that fund. Those that do not have a significant committed revenue source or that receive most or all of their revenue as a transfer from another fund would likely not meet the revised definition for a special revenue fund and would then be reported in the general fund.

C) Disclosure

The new standard requires disclosure of:

- a description of the authority for and actions that lead to committed and assigned fund balance.
- the government's policy regarding order of spending for committed, assigned and unassigned funds.
- description of any formally adopted minimum fund balance policies.
- purpose of each major special revenue fund and which revenues or other sources are reported in each of those funds.

Actions to consider before year end in the year of implementation

- In order to report fund balance as committed, the government's highest level of decision making authority must act to establish committed fund balances, including stabilization arrangements.
- Decide which person(s) have direct or delegated authority to assign fund balance.
- Review any formal minimum fund balance policy and possible changes required as it relates to this new standard.
- Determine if special revenue funds meet the revised definition in the standard.
- Establish a policy on the order in which unrestricted resources are to be used when any of these amounts are available for expenditure. If no policy exists, the default assumes committed funds are used first, followed by assigned and then unassigned amounts.

Budgeted Revenues

The 2009 budget was not met for several revenue sources including interest income, fines and forfeitures, parking violations and ambulance fees. We recommend the City review its 2010 budget and determine if these revenues are on target. It appears that interest income and the fines have been adjusted. However, the City may need to review its 2010 ambulance fee budget to see if they are on track.

Prior Year Comments

Cash and Investments - Custodial Credit Risk

We previously recommended that the City reviews its insurance limits at local financial institutions. The City has a significant amount of cash and investments at local financial institutions that are above the FDIC and State Deposit Guarantee Fund insurance levels.

For 2009, the City appeared to have adequate coverage at year end. This included collateral agreements and an account that was insured under the FDIC Transaction Account Guaranty (TAG) program. This program is set to expire at year-end. The City should again review its insurance coverage. Its cash balances will fluctuate with large borrowings.

Utility Rates

Sewer

We previously recommended that the City review and monitor its sewer rates to a level sufficient to meet coverage ratios. Rates were updated on annually. The debt coverage requirement was met in 2009. The Sewer Utility's cash flow appeared adequate in 2009. However, the City is in the process of implementing a \$5.56 million upgrade. As a result, the Sewer Utility may need to increase rates more significantly.

The Sewer Utility incurred an operating loss of \$411,108 in 2009. A significant reason for the operating loss was non-cash depreciation expense of \$871,739. To eliminate the operating loss, Sewer revenues would need to be approximately 24% higher.

Water

The water utility had a rate of return on regulated rated base of 2.00% in 2009. This is below its authorized rate of return of 6.50%. The reduction in rate of return was due in part to some significant maintenance in 2009. However, the utility is anticipating capital project costs of approximately \$1 million this year. We recommend that the utility pursue a conventional rate study with the Public Service Commission. The rate application process can take 6 months to complete so the City should begin soon.

Internal Accounting Controls **Departmental Controls**

The size of your organization sometimes precludes complete separation of duties. The City has implemented a number of compensating controls such as requiring approval of invoices from department heads, the Finance Director and Council and the Finance Director reviewing bank reconciliations and journal entries. However, we noted the following item:

- We did note at times the same personnel performed billing and receipting functions. To the extent possible, these should be segregated.