

**CITY OF WHITEWATER
WHITEWATER, WISCONSIN
REQUIRED AUDIT COMMUNICATIONS
TO THE CITY COUNCIL**

Year Ended December 31, 2016

**Johnson Block & Company, Inc.
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**CITY OF WHITEWATER
WHITEWATER, WISCONSIN**

Year Ended December 31, 2016

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**AUDIT MATTERS REQUIRING COMMUNICATION
TO THE GOVERNING BODY**

June 19, 2017

To the City Council
City of Whitewater
Whitewater, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Whitewater for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 31, 2016. Professional standards require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Whitewater are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City of Whitewater's financial statements were:

Management's estimates of the depreciable lives of property and equipment are based on the expected use of the respective assets and management's experience with similar assets used by the City. Also, management's estimate of the pension asset and deferred outflows of resources are based on various factors. These estimates were computed by the pension plan administrator. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The material misstatements detected as a result of audit procedures were corrected by management. The adjustments included:

- Adjusted accrued interest payable
- Accrue additional year-end payables and payroll accruals
- Reclassify utility fixed assets and construction in progress
- Adjust taxicab receivables and deferred revenue
- Adjust tax equivalent PILOT payment
- Accrue depreciation expense and joint meter allocation for fixed assets

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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 19, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on these statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of 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 management's discussion and analysis, the budgetary comparison information, and the Wisconsin Retirement System schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, 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.

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

Sincerely,

Johnson Block & Company, Inc.

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Madison, Wisconsin



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June 19, 2017

To the City Council
City of Whitewater
Whitewater, Wisconsin

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Whitewater as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Whitewater's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Whitewater's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Whitewater's internal control.

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 a 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the City of Whitewater's internal control to be a significant deficiency:

2016-1 Financial Reporting

A consequence of the size, combined with the specific expertise of your accounting and financial reporting department, is that management has elected to rely on the knowledge of its auditors to prepare its annual financial statements and related disclosures. Your City, like many others, has made the determination that because of the ever changing and numerous reporting requirements associated with preparing financial statements that are in conformity with accounting principles generally accepted in the United States of America, it is more cost advantageous to rely on the expertise of its outside auditors to assist in the preparation of its financial statements.



However, since the financial statements are the responsibility of the City's management, the control over the financial statements being prepared in conformity with accounting principles generally accepted in the United States of America, lies with management. Currently, the City has elected not to dedicate its resources to providing for sufficient internal control over the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America, resulting in a more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

In addition, we noted other matters involving the internal control and its operation that we have reported to management of the City of Whitewater in a separate letter dated June 19, 2017.

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

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June 19, 2017

To the City Council
City of Whitewater
Whitewater, Wisconsin

In planning and performing our audit of the financial statements of the City of Whitewater for the year ended December 31, 2016, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The following pages that accompany this letter summarize our comments and suggestions regarding those matters. This letter does not affect our report dated June 19 2017, on the financial statements of the City of Whitewater.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the City's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

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Madison, Wisconsin

**CITY OF WHITEWATER
WHITEWATER, WISCONSIN
Year Ended December 31, 2016**

ADJUSTING JOURNAL ENTRIES

As your auditor, our role is to substantiate year end financial balances and information presented by your accounting personnel, and compare it to supporting information and outside confirmations. When information in your records does not agree with audit evidence, an adjusting entry is necessary to correct your records. Sometimes these entries are identified by your staff as they get ready for the audit. Other adjustments are prepared by us as we discover that your general ledger balances need to be changed to reflect the correct balances. Please see the attached journal entries in the appendix.

The proposed entries were accepted by the City's management. All of these changes are reflected properly in your audited financial statements. A copy of the adjusting entries has been provided to your staff and they have been posted to your 2016 general ledger.

Due to the technical nature of financial reporting and complying with financial reporting standards, most clients have their CPA firm prepare the year end financial statements and note disclosures. We have provided these services to your City.

We are communicating this information to you to give you a better understanding of what we do and how the year end process works. Our job as auditors is to bring in an outside perspective and provide a level of comfort that your financial reporting system is materially correct and accurately reflects the financial activity for the year. However, in many cases, our services go beyond auditing. Our experience and training can provide a very cost-effective means of providing the year end accounting assistance that you need.

We hope that by providing this information on what we do, you will have a better understanding of our role, and the various ways that we work with your staff.

PASSED JOURNAL ENTRIES

Passed journal entries may occur due to transaction timing, industry practices or lack of overall significance. There were no potential (passed) journal entries identified in our audit that were not posted to the general ledger.

ADDITIONAL COMMENTS

CURRENT YEAR COMMENTS

Budget Comparisons

We previously commented that the City budget had several categories where expenditures exceeded the budget and several revenues were short of budget. In 2016, the net result was that the general fund balance (fund 100 only) decreased by approximately \$26,000. This compared with a net loss of approximately \$126,000 in 2015.

We previously recommended that the City review the assumptions in its budget to determine if the City is on track with its fund balance projections. In addition, we recommend that the City provide concise, department level budget to actual reports to the Council monthly. If budget variances exist for a particular department, more detail comparisons could be provided for the particular department. This should be taken into consideration for the City's next budget.

Fund Balance Policy (GASB 54)

We previously commented on a new accounting standard. The Governmental Accounting Standards Board recently issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. With regard to this, we recommend the city implement a fund balance policy that will include the following items:

- 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.
- 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.

We have provided the City with a sample policy. We understand the City will be updating its policy.

Levy Limit

During the audit, we determined that the City's 2017 levy limit was not calculated correctly. We recommend that a review process be put into place in order to verify that the levy limits are accurate. We can assist with this process.

CDA Loan Balances

Per our review, we identified multiple CDA loans that are late and have overdue balances. We recommend that these loans and balances be monitored on a regular basis in order to assure timely payment and collection.

ADDITIONAL COMMENTS (Continued)

CURRENT YEAR COMMENTS (Continued)

Accounting Procedures Manual

We recommend that an accounting policies and procedures manual be completed in writing and approved by the City Council. In particular, this manual should document policies for:

- Cash receipts
- Purchasing/Disbursements
- Payroll
- Account reconciliation
- Utility Billing
- Fixed asset accounting

We can provided the City with a sample policy.

Uninsured Cash

The City's bank deposits are partially secured by federal deposit insurance and the state deposit guarantee fund. On December 31, 2016, the City had \$4,514,658 deposited in the banks that was uninsured and uncollateralized. We recommend that the City consider obtaining additional collateral from the banks or investigating other investment options.

Aquatic Center Agreement

The City entered into an agreement with the School District for the lease and operation of the Aquatic Center. The agreement specifies that the parties will split expenses equally to the extent they are not covered by revenues. The Aquatic Center is a new fund in 2016 and has a deficit of \$185,337 as of 12/31/2016. The deficit is for only the 6 months it was in operation and some costs may be mitigated through an initial contribution.

We recommend that the City and District work on procedures for replenishing the revenue shortfall and identify the period that should be utilized as the measurement period (calendar year-end or 6/30 year end).

CONCLUDING REMARKS

We would like to thank you for allowing us to serve you. We are committed to assisting you in the long-term financial success of the City of Whitewater and our comments are intended to draw to your attention issues which need to be addressed by the City to meet its goals and responsibilities.

The comments and suggestions in this communication are not intended to reflect in any way on the integrity or ability of the personnel of the City. They are made solely in the interest of establishing sound internal control practices required by changing professional standards. The City's staff is deeply committed to maintaining the financial reporting system so that informed decisions can be made. They were receptive to our comments and suggestions.

We will review the status of these comments during each audit engagement.

If you have any questions or comments regarding this communication or the financial statements, do not hesitate to contact us.