

CITY OF WAUKESHA

Waukesha, Wisconsin

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

As of and for the Year Ended December 31, 2012

CITY OF WAUKESHA

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

To the Common Council
City of Waukesha
Waukesha, Wisconsin

In planning and performing our audit of the financial statements of the City of Waukesha as of and for the year ended December 31, 2012, 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.

Separate Communications to those Charged with Governance and Management were issued to the Waukesha Water Utility Commission and Waukesha Transit Commission. The information contained in those reports is not included in this letter.

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 a certain deficiency in internal control that we consider to be a material weakness.

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 of Waukesha's internal control to be a material weakness:

- > Internal Control Over Financial Reporting
- > Bank Reconciliations

The City of Waukesha's written response to the comments and recommendations identified in our audit have not been subjected to auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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
July 26, 2013

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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 the City's year-end financial reporting process and preparation of your financial statements and schedule of federal and state awards. A properly designed system of internal control allows for the presentation of year-end financial data and financial statements, including schedule of federal and state awards without material errors. At this time, the City does not have internal controls in place that allow for the presentation of materially correct year-end financial statements. As a result, we consider this absence of controls to be a material weakness in internal control over the City's financial reporting.

To provide some perspective, establishment of such internal controls can be a difficult task for governments. Many governments do rely on their auditors to prepare certain year-end adjusting entries and prepare the year-end financial statements and the schedule of federal and state awards. Because the auditors are not involved with the City's day-to-day activities, it is important that management have the skills, knowledge, and experience to review the audit adjustments and financial statements prepared by the auditors to ensure completeness, accuracy, and consistency with management's knowledge of transactions impacting the City during the year.

Management Response:

The City recognizes that current staffing levels do not allow City finance personnel the time required to prepare the City's yearend financial statements and schedules of federal and state awards. The staffing shortage also allowed for some material journal entries to go unrecognized during the yearend closing process. The City also recognizes the potential need for staff training in order for a complete and materially accurate financial statement document to be prepared. A full evaluation will be completed in 2013 once the new finance director is in place.

BANK RECONCILIATIONS

Reconciling Items not recorded in the General Ledger

During the reconciliation process, it was noted that there are several reconciling items that carryforward monthly with no general ledger account activity being posted until year end. This methodology can lead to inaccurate information within the City's general ledger that is used for decision making purposes. These items that have been identified should be posted appropriately during the reconciliation process and not included as reconciling items on the final monthly bank reconciliation. Examples of these reconciliation items are:

- Transit bank account activity
- Necessary corrections to journal entries as indentified during the reconciliation process
- Payroll activity (manual checks)
- Checking accounts included in the reconciliation whose monthly activity is not recorded until year end.

We also noted one instance of where the general ledger entry to record sewer activity for the month did not agree to the actual deposit. The deposit related to August and actual deposit was approximately \$8,000 less than what was recorded in the general ledger.

Based on the volume of unrecorded activity and noted errors, the general ledger cash balance was decreased approximately \$65,336,000 which consisted of two large entries and numerous other adjustments.

BANK RECONCILIATIONS (cont.)

Bank Reconciliation Review

During discussions with finance department staff, it was noted that there is no independent review of the completed monthly bank reconciliation. Moving forward, Baker Tilly recommends that someone other than the preparer review the completed bank reconciliations to verify accuracy to the general ledger.

Bank Reconciliation Process

The complexity of the reconciliation process needs to be reviewed as it entails multiple excel spreadsheets which increases risk of errors. We noted that the City's goal is to eventually have a master account that will expedite the process but they it currently is not in place. We also noted that new cash accounts were created in 2012; however client did not appear to be familiar enough with MUNIS to change the report parameters to include all cash accounts. It was only after noting significant variances that those accounts were included in reports. Ongoing MUINS training appears to be needed.

Management Response:

Management recognizes the inefficiency's in the daily deposit process and the overall bank reconciliation process along with reconciling items not being recorded timely in the general ledger. These areas will be addressed in 2013 and will be a priority of the new Finance Director who starts on August 12.

OTHER COMMUNICATIONS WITH 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 or 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 the 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 misstatements.
 - > 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. For audits done in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

- 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. We address the significant risks of material noncompliance, whether due to fraud or error, through our detailed audit procedures.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

- e. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material noncompliance related to the federal and state awards 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 the federal and state awards and to determine whether they have been implemented. We will use such knowledge to:
- > Identify types of potential noncompliance.
 - > Consider factors that affect the risks of material noncompliance.
 - > Design tests of controls, when applicable, and other audit procedures.

Our audit will be performed in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, OMB Circular A-133, and the *State Single Audit Guidelines*.

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. For audits done in accordance with OMB Circular A-133 and the *State Single Audit Guidelines*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and OMB Circular A-133 in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

- f. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for reporting material noncompliance 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 entity's federal and state awards. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material noncompliance, whether caused by error or fraud, is detected.
- g. 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 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 or the federal or state awards?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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. We will perform 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 or wish to provide other feedback. We welcome the opportunity to talk with you.

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

OTHER COMMENTS AND RECOMMENDATIONS

INFORMATION TECHNOLOGY CONTROLS

The implementation of the auditing standards (#104-111) were intended to improve the auditors' understanding of the environment in which the City of Waukesha operates and its internal controls over financial reporting. Information technology is a significant part of the financial environment. As such we have evaluated the information technology controls as they relate to financially significant applications. Our procedures primarily focused on documenting and evaluating general computer controls, including:

- > Change management standards, policies and procedures
- > Logical and system security
- > IT operations

From our review, we have identified several suggestions to help strengthen internal controls which have been communicated in a separate letter to City information technology management. These comments do not rise to the level of a material weakness or significant deficiency in internal controls as defined by the auditing standards, therefore, we are not required to report these items in the City's report on internal control. We are using the separate letter as an alternative way to communicate these recommendations.

Management Response:

The City of Waukesha IT department recognizes the identified suggestions revealed by the audit team and continues to make best-effort to improve general IT computing controls. This is evidenced through better documented policies, procedures, and internal controls. Significant improvement has been made with each audit as evidenced by each consecutive year IT audit report.

Improvements are continuous and are slowly being implemented through a number of ways. The replacement of older systems that are unable to comply due to technology limitations, improved and updated internal policies which mandate IT and other departmental controls, as well as procuring systems to assist in keeping city data safe and secure. Technology governance and policy enforcement are constantly changing, thus IT will be continually implementing new means in which to meet industry/auditing standards. In the near future many listed audit control weaknesses will give way as newer technologies allow for better integration and management of all systems.

Specific areas IT will concentrating on for 2014 will be a move to a new Payroll platform which will include better audit controls as well as better integration into City Active Directory services. JDE, the City of Waukesha's old financial system, will continue to be decommissioned through 2014, Domain admin users will be limited on the network and Tyler/Vision vendors will have full-time access removed. This has been completed already in 2013. IT also intends to purchase applications capable of monitoring network access violations, as well as file structure.

Breach of protocol policy and how to deal with violations are currently being worked on in 2013 and should be online for the 2014 audit.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

JOURNAL ENTRIES

Journal entries serve the purpose of recording transactions that were not processed through the normal accounts receivable/revenue or accounts payable/payroll expenditure systems, or to adjust transactions that did not go through the normal transaction system. We found during our testing four journal entries that were prepared and approved by the same person. We recommend that there be an additional level of control put in place to avoid this situation in the future.

Management Response:

Workflow has been adjusted accordingly to avoid this in the future.

IMPACT FEES

The city collects impact fees per State Statute 66.0617. Those impact fees are properly recorded on the financial statements as restricted cash. However, the actual cash is maintained with the city's commingled deposits. Statute 66.6017 specifies that impact fees should be maintained in segregated, interest bearing accounts. We recommend the city make this change going forward.

Management Response:

The City acknowledges that impact fees should be maintained in a segregated, interest bearing account and will coordinate with the clerk/treasurer's office to set this up.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

ADVANCE TAX COLLECTIONS

During our audit it was noted that the advance tax collection figure was incorrect and incorrectly reported to the County. The reasons for the inaccurate data was due to an error in a formula on the tracking spreadsheet and because of payments made at local area banks prior to year end but not being known by City treasury department until much later. We recommend that each property tax settlement cycle should include a reconciliation of the general ledger to the tax collection system total collections. We would also propose that procedures be implemented to ensure timely bank reconciliations are prepared and timely recording of all bank transactions occurs so that proper reconciliations as recommended above can occur.

Management Response:

As the Clerk/Treasurer's Office transitions to receipting in MUNIS for tax collections in the fall, we will have the ability to reconcile the general ledger postings against the tax collection system total collections on a monthly basis. The new finance system is designed to provide a flow-through of our collections into the general ledger, alleviating the necessity for creating a monthly spreadsheet for collections which is where the failure occurred (spreadsheet for December did not appropriately calculate in the 12/31 Waukesha State Bank payment line). The additional collections would have been corrected with the final settlement closeout in August, but having a flow-through from the collection side to the ledger should eliminate human error using separate spreadsheets.

Additionally, we anticipate being able to automatically "load" payments made in person by our taxpayers at Waukesha State Bank with our new finance system from a bank data capture, which will assure proper payment captures directly from bank deposit data.

BUSINESS IMPROVEMENT DISTRICT ACCOUNTS RECEIVABLE

The Business Improvement District has an outstanding accounts receivable in the amount of \$2,250 that has been outstanding since 2008. We recommend the City analyze this receivable and determine proper handling in 2013.

Management Response:

The City will determine proper disposition during the close out audit of the District in 2013.

AMBULANCE WRITE-OFF'S

During 2012, accounting personnel, along with the new ambulance billing vendor, identified approximately \$800,000 in ambulance receivables that were not considered collectible. These accounts were written off from the City's general ledger and were reflected in the 2012 financial statements. We recommend that the City implement a policy that would require write-offs exceeding certain dollar thresholds to be approved by the City Common Council and that documentation all write-offs of uncollectible receivables be included in the Councils meeting minutes.

Management Response:

The City, in 2013, will modify the financial policies to include language that would require write-off's exceeding certain dollar thresholds to be approved by the City Common Council. As such, any write-off's that require council approval will be documented in the Council minutes.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

Cash Reconciliations***Centralized Location for Daily Deposits***

During the reconciliation process, it was noted that each City department handles daily deposits differently. This adds inefficiencies in the bank reconciliation process as each of these different methods require detail analysis from each department in order to identify the reconciling items. We recommend that the City consider implementing the following to improve the efficiency of the process.

- Each department should make daily deposits
- Those deposits should be made to the Treasurer's office
- Support for each departments deposit should be given to the Treasurer's office and included in the documentation for the City's daily deposit at the bank.

Management Response:

Management recognizes the inefficiency's in the daily deposit process and the overall bank reconciliation process along with reconciling items not being recorded timely in the general ledger. These areas will be addressed in 2013 and will be a priority of the new Finance Director who starts on August 12.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

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. 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 may fit this situation may include the following:

- Recreation
- Police department
- Library

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.

Management Response:

The City acknowledges it's responsibility with respect to Departmental Controls. The Finance Director will review the departmental controls with respect to segregation of duties, centralized vs. decentralized operations, and determine the appropriate level of controls and procedures to be implemented in 2013.

INFORMATIONAL POINTS

GASB STATEMENT NO. 65: ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES

Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* will result in a reclassification of some financial statement line items on the Statement of Net Position and Balance Sheet of governments. The new financial statement categories of deferred outflows of resources and deferred inflows of resources will become more commonly used upon implementation of this standard. In addition to reclassifications to these new categories, the standard will also result in a change in the accounting treatment for certain items, including debt issuance costs. This standard is effective for periods beginning after December 15, 2012, and was intended to complement Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Some of the most significant changes of this standard that will impact many governments include:

- > Debt issuance costs previously amortized will now be expensed in the period incurred
- > Losses on refunding of debt will now be classified as a deferred outflow of resources, and consistent with the change noted previously, the formula for calculating the loss has been adjusted to exclude debt issuance costs (prospectively)
- > Regulatory credits recorded by utilities will now be recorded either as a liability or a deferred inflow of resources, depending on how the credit will be applied in the future
- > The terminology of *deferred revenue* is no longer permitted to be used. In addition, the items previously recorded as deferred revenue will need to be analyzed to determine if they now will be presented as a deferred inflow of resources or a liability
- > The major fund determination formula has been updated to include the new categories

We are available to discuss these changes and the impact on your financial statements.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the Common Council
City of Waukesha
Waukesha, 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 Waukesha for the year ended December 31, 2012 and have issued our report thereon dated July 26, 2013. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED
IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS,
OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT GUIDELINES***

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, *Government Auditing Standards*, OMB Circular A-133, and the State Single Audit Guidelines. 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.

We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal or major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Guidelines.

As part of obtaining reasonable assurance about whether City of Waukesha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133 and the State Single Audit Guidelines, we examined, on a test basis, evidence about City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State Single Audit Guidelines applicable to each of its major federal and state programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of Waukesha's compliance with those requirements.

We will issue a separate document which contains the results of our audit procedures to comply with OMB Circular A-133 and the *State Single Audit Guidelines*.

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.

To the Common Council
City of Waukesha
Waukesha, Wisconsin

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our prior year Report on Internal Control dated July 23, 2012.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT 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. As described in Note I to the financial statements, the City changed accounting policies related to deferred outflows of resources, deferred inflows of resources, and net position by adopting Governmental Accounting Standards (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in 2012. We noted no transactions entered into by the City 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 allowance for doubtful accounts is based on an analysis of the collectivity of individual accounts.
- > Accrued compensated absences are based on anticipated future retirement levels and an average wage per hour based on the current retirees' salaries.
- > Accrued claims for self-insurance is based on actual claims known at year end plus estimates of claims incurred but not reported.
- > Post-employment life and healthcare insurance benefits' actuarial accrued liability which impacts the annual required contributions are based upon several key assumptions that are set by management with the assistance of an independent third party actuary. These assumptions include anticipated investment rate of return, health care cost trends, projected salary increases, mortality and certain cost amortization periods.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in 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 Waukesha
Waukesha, Wisconsin

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.

In addition, the following is a summary of material financial statement misstatements (audit adjustments):

1. To adjust equity to match prior year ending balance - \$162,704
2. To agree Receivable and Transfer amounts in General Fund to Payable and Transfer amounts in Water File – \$245,657
3. To correct Sick Leave balance - \$138,842

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

CONSULTATION 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 Waukesha
Waukesha, Wisconsin

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the City 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 Waukesha for the year ended December 31, 2012, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the City in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the City 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.

- > Financial statement preparation
- > Adjusting journal entries
- > SEFA and SESA Preparation
- > Compiled regulatory reports
- > Bookkeeping assistance

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

OTHER AUDIT FINDINGS OR ISSUES

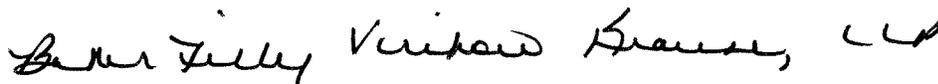
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

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.

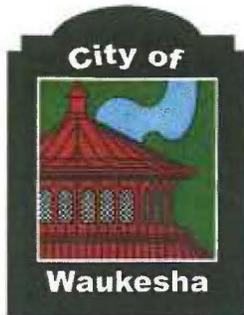
This information is intended solely for the use of the Common Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

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



Milwaukee, Wisconsin
July 26, 2013

MANAGEMENT REPRESENTATIONS



FINANCE DEPARTMENT

Vicki Krueger Interim - Finance Manager

201 DELAFIELD STREET
vkrueger@ci.waukesha.wi.us
WAUKESHA, WISCONSIN 53188-3633
TELEPHONE 262/524-3560 FAX 262/524-3555

July 26, 2013

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 Waukesha as of December 31, 2012 and for the year then ended for the purpose of expressing an opinion 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waukesha 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 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 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 or in the schedule of findings and questioned costs.
7. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
8. 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.
9. Guarantees, whether written or oral, under which the City of Waukesha is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. 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 records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - 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.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
12. We have disclosed to you the results of our 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. There are no 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 actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

17. There are no known related parties or related party relationships and transactions of which we are aware.

Other

18. We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

20. We have a process to track the status of audit findings and recommendations.

21. 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.

22. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

23. The City of Waukesha has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

24. 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 and debt contracts; 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.

25. There are no:

- a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting 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.
- 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.

26. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 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. SEFSA preparation
- d. Compiled regulatory reports
- e. Bookkeeping assistance

None of these non attest services constitute an audit under generally accepted auditing standards, including

Government Auditing Standards.

27. The City of Waukesha 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.
28. The City of Waukesha has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
29. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
30. The financial statements include all component units and properly disclose all other joint ventures and other related organizations.
31. The financial statements properly classify all funds and activities.
32. 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.
33. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
34. The City of Waukesha has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
35. Provisions for uncollectible receivables have been properly identified and recorded.
36. 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.
37. Revenues are appropriately classified in the statement of activities within program revenues and general revenues
38. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
39. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
40. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized.
41. We have appropriately disclosed the City of Waukesha'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 how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.
42. 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.
43. With respect to the combining and individual fund financial statements:

- a. We acknowledge our responsibility for presenting the combining and individual fund financial statements in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual fund financial statements, 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 combining and individual fund financial statements 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 combining and individual fund financial statements 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.
44. We assume responsibility for, and agree with, the findings of specialists in evaluating the Other Post Employment Benefits 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.
45. With respect to federal and state award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, OMB Circular A 133, *Audits of States, Local Governments, and Non-Profit Organizations*, *State Single Audit Guidelines*, including requirements relating to preparation of the schedule of expenditures of federal and state awards (SEFSA).
 - b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal and state awards, expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, federal and state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, insurance and other direct assistance received for the purpose of administering federal and state programs. We have also made records available to you relating to such financial awards received directly, as well as indirectly, as pass-through awards.
 - c. We acknowledge our responsibility for presenting the SEFSA in accordance with the requirements of OMB Circular A-133 §310.b and the State Single Audit Guidelines, and we believe the SEFSA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b and the *State Single Audit Guidelines*. The methods of measurement and presentation of the SEFSA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFSA.
 - d. If the SEFSA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFSA no later than the date we issue the SEFSA and the auditors' report thereon.
 - e. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the *State Single Audit Guidelines*.
 - f. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.

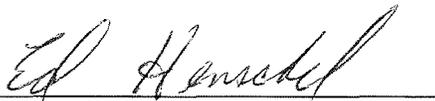
- g. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal and state programs that provide reasonable assurance that we are administering our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- h. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relevant to the programs and related activities.
- i. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- j. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement and the State Single Audit Guidelines, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards.
- k. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- l. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- m. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- n. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- o. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- p. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- q. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- r. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance) have occurred subsequent to the date as of which compliance was audited.
- s. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

- t. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- u. We have charged costs to federal and state awards in accordance with applicable cost principles.
- v. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and the *State Single Audit Guidelines* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- w. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- x. We are responsible for preparing and implementing a corrective action plan for each audit finding.
- y. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

Sincerely,

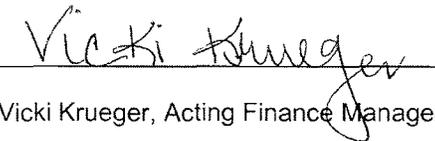
City of Waukesha

Signed:

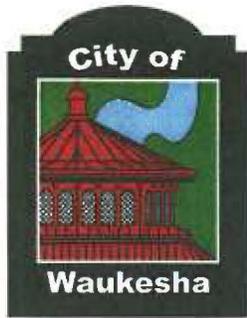


Ed Henschel, City Administrator

Signed:



Vicki Krueger, Acting Finance Manager



FINANCE DEPARTMENT

Vicki Krueger Interim - Finance Manager

201 DELAFIELD STREET
vkrueger@ci.waukesha.wi.us
WAUKESHA, WISCONSIN 53188-3633
TELEPHONE 262/524-3560 FAX 262/524-3555

July 26, 2013

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 basic financial statements of the City of Waukesha Business Improvement District as of December 31, 2012 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the BID, Wisconsin 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 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 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 known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
8. 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.
9. Guarantees, whether written or oral, under which the BID is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. 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 records, 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 BID Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our 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. There are no 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 actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. There are no known related parties or related party relationships and transactions of which we are aware.

Other

18. We have made available to you all financial records and related data.
19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. The BID 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 and debt contracts; 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 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.
 - 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.
23. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 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

None of these non attest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
24. The City of Waukesha Business Improvement District 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 Waukesha Business improvement District has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
26. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
27. The financial statements properly classify all funds and activities.
28. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
29. Deposits and investment securities are properly classified as to risk, and investments are properly valued.

30. We have appropriately disclosed the City of Waukesha Business Improvement District'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 how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.

Sincerely,

City of Waukesha Business Improvement District

Signed: Ed Henschel

Ed Henschel, City Administrator

Signed: Vicki Krueger

Vicki Krueger, Acting Finance Manager