

CITY OF WAUKESHA

REPORT ON INTERNAL CONTROL

(Including Memorandum on Accounting Procedures,
Internal Controls, and Other Matters)

As of and for the Year Ended December 31, 2011

CITY OF WAUKESHA

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To the Common Council
City of Waukesha
Waukesha, Wisconsin

Dear Common Council Members:

In planning and performing our audit of the financial statements of the City of Waukesha (City) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 of the effectiveness of its internal control.

A separate Report on Internal Control was issued to the Waukesha Water Utility Commission. The information contained in that report is not included with this letter.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a 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's internal control to be a material weakness.

> Internal Control over Financial reporting

This communication is intended solely for the information and use of the Common Council, management, 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 23, 2012

MATERIAL WEAKNESS

Internal Control over Financial Reporting

In theory, a properly designed system of internal controls, consists of enough people to process and record monthly transactions, as well as prepare a complete set of annual financial statements. However, while most municipalities' staff has the time needed for monthly reporting and the processing and recording of monthly transactions, the reality is that very few have the time needed to prepare annual financial statements.

Internal controls should provide the City with the ability to prepare a complete set of yearend financial statements for the auditor to test. This high level of internal control over financial reporting can be a difficult task for governments. As opposed to large private companies, most governments operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to prepare the year end entries and financial reporting. As this is the case with your municipality, we are now required to inform you that this is a material weakness in your internal controls.

OTHER COMMENTS AND RECOMMENDATIONS

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 one journal entry that was 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.

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.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

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.

BUSINESS IMPROVEMENT DISTRICT ACCOUNTS RECEIVABLE

During our audit it was noted that the Business Improvement District (BID) has an outstanding accounts receivable in the amount of \$2,250 that has been outstanding since 2008. We recommend the city analyze this account to determine if it is collectable or if an allowance or write-off is appropriate.

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.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

DEPARTMENTAL CONTROLS (CONTINUED)

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.

GASB STATEMENT NO. 63: FINANCIAL REPORTING OF DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, which changes governmental financial reporting for certain assets and liabilities. These changes will affect your financial statements for the year ended December 31, 2012, primarily the government-wide financial statements, and possibly the fund financial statements.

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Examples of deferred outflows may include:

- > Loss on refunding of debt
- > Certain advances to grantees
- > Purchase of future revenues

Examples of deferred inflows may include:

- > Advances received for certain grants
- > Gain on refunding of debt
- > Sales of future revenues
- > Certain revenues received under FASB 71

The result of these changes means that your balance sheet may need to have 2 additional categories, one below assets and another below liabilities. In addition, some titles as "statement of net assets" will change to "statement of net position". There are also increased footnote disclosure requirements.

You will need to determine how these new requirements will affect your financial statements.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

YELLOW BOOK (GOVERNMENT AUDITING STANDARDS) REVISIONS

In December 2011, the Government Accountability Office (GAO) released a revision to the Yellow Book auditing standards. This is a major revision and the first revision since July 2007. The changes are effective for years ending December 31, 2012.

The major change in the new standards relates to how much assistance the auditor can provide to you during the audit process. The changes cover the area of "nonaudit services". Nonaudit services include such topics as bookkeeping assistance, consulting services, and preparation of the year-end financial statements. The goal of the new standards is to make it more clear to auditors that we cannot provide services to audit clients that would impair our independence. In other words, we cannot be part of your internal control system, and we cannot perform management functions.

We are in the process of developing tools to implement the revised standards. These tools will require us to discuss with you our role and your role regarding audit services and nonaudit services. For any nonaudit services we provide, we will need to document those discussions in our audit files and you will need to confirm that you understand and agree with such documentation. It is likely that there may be other changes to the way we wrap up the financial statement process as well.

We will contact you when we have the new documentation ready for the next year's audit.

PROPOSED CIRCULAR A-133 SINGLE AUDIT REVISIONS

On February 28th, 2012, the Office of Management and Budget ("OMB") issued a proposal to revise requirements of specific Circulars, including A-133. The OMB is considering an integrated set of guidelines for one consolidated Circular. The proposed changes include:

Concentrating audit resources on higher dollar and higher risk awards: The first proposed reform would not require entities that expend less than \$1 million dollars in federal awards to conduct a Single Audit. Additionally, entities that expend more than \$1 million but less than \$3 million in federal awards will undergo an audit that only concentrates on two compliance requirements. Allowable and unallowable costs will always be a compliance requirement, but the responsible federal agency would be permitted to select the second requirement that it feels best targets risk of waste, abuse, fraud, or improper payment. Any entity expending more than \$3 million in federal awards would undergo a full Single Audit.

Consolidating Circulars and cost principles: The second proposed revision includes reforms to the current cost principles (Circulars A-21, A-87, and A-122, and the Cost Principle for Hospitals). These reforms include consolidating the various cost principles into a single document. The goal is to streamline the universal compliance requirements in Circular A-133 Compliance Supplement. The compliance requirements would also be consolidated to include only those elements focused on the stewardship of federal awards.

The OMB is in the process of considering comments from the public.

We recommend that management determine the potential implications these pronouncements may have on the City upon implementation. We would be happy to discuss any of these items with you.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS RESOLVED

- GASB No. 54 (Per 12/31/10 Letter)
- Outstanding Checks (Per 12/31/10 Letter)

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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

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

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

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with Government Auditing Standards, our report will contain the following restriction: "This report is intended solely for the information and use of those charged with governance, management, others within the City, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties."

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

- c. 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 or material noncompliance, whether due to fraud or error through our detailed audit procedures.
- 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*.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (continued)

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 with accordance with OMB Circular A-133 and the *State Single Audit Guidelines*, our report will contain the following restriction: "This report is intended solely for the information and use of those charged with governance, management, others within the City, federal (and state) awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties."

- 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.

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

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

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

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

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

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

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

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

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

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 the 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 the City of Waukesha'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 major state programs for the purpose of expressing an opinion on the City of Waukesha's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Waukesha's compliance with those requirements.

We have issued 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

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.

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.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (continued)

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our 2010 Report on Internal Control date July 18, 2011.

QUALITATIVE ASPECT OF ACCOUNTING POLICIES***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note I to the financial statements. As described in Note I to the financial statements, the City of Waukesha changed accounting policies related to fund balance by adopting GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011. 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 have evaluated the key factors and assumptions used to develop the estimates identified above in determining that they are 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.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (continued)

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

AUDIT ADJUSTMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements.

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

	<u>Amount</u>
Adjust loan receivable repayments	\$ 1,280,384

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 Assets" 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.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (continued)

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 as of and for the year ended December 31, 2011, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the City and provided no services to the City other than services provided in connection with the audit of the current year's financial statements and the following non-audit services which in our judgment do not impair our independence:

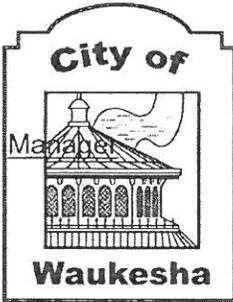
- > Financial statement preparation
- > Adjusting journal entries
- > Schedule of expenditures of federal and state awards preparation
- > Compiled regulatory reports

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

OTHER AUDIT FINDINGS OR ISSUES

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

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



FINANCE DEPARTMENT

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July 23, 2012

Baker Tilly Virchow Krause, LLP
115 South 84th Street, Suite 400
Milwaukee, WI 53214-1475

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, 2011 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 units, 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, and preventing and detecting fraud.

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

1. 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 oversight unit and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
2. We have made available to you all –
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of the common council or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal and state awards.
5. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - 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.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations.
10. 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.
11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
12. The City of Waukesha has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
13. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the City of Waukesha is contingently liable.
 - c. All accounting estimates that could be material to the financial statements including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
14. 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.

15. There are no –

- a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, federal, state, and local laws or regulations including those pertaining to adopting and amending budgets, 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. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
- d. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
- e. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- f. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

16. 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.

17. 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.

18. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

20. The financial statements properly classify all funds and activities.

21. 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.

22. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

23. Provisions for uncollectible receivables have been properly identified and recorded.

24. 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.

25. Revenues are appropriately classified in the statement of activities within program revenues and general revenues or contributions to permanent fund principal.
26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
28. 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.
29. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
30. 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 assets are available and have determined that net assets 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.
31. 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.
32. We acknowledge our responsibility for presenting the combining and individual fund financial statements and schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual fund financial statements and schedules, 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 and schedules 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.
33. 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.

34. 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. Schedule of expenditures of federal and state awards preparation
 - d. Compiled regulatory reports
35. 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*, the *State Single Audit Guidelines*, including requirements relating to preparation of the schedule of expenditures of federal and state awards.
 - 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 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 schedule of expenditures of federal and state awards (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 the Circular. 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 supplementary information no later than the date we issue the supplementary information 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 in all material respects, 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 major state program.

35. (cont.)

- 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 relevant to the programs and related activities subject to the governmental audit requirement.
- 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, if any, 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 are subject to varying interpretations, if any.
- 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.

35. (cont.)

- r. No changes have been made in internal control over compliance or other factors that might significantly affect internal control 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 organizations related to noncompliance, if any, at the service organizations.

We have evaluated and classified any subsequent events as recognized or unrecognized through the date of this letter. To the best of our knowledge and belief, 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.

Sincerely,

City of Waukesha

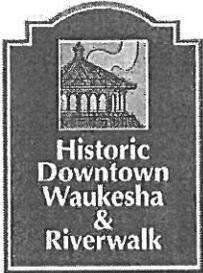
Signed: _____

Mr. Steven Crandell, Interim City Administrator

Signed: _____

Mr. Stephen Neaman, Finance Manager





Waukesha Business Improvement District

802 North Grand Avenue, Waukesha, WI 53186

Phone: 262-549-6154 Fax: 262-549-6187

July 23, 2012

Baker Tilly Virchow Krause, LLP
115 South 84th Street, Suite 400
Milwaukee, WI 53214-1475

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the books and records of the City of Waukesha's Business Improvement District (BID) as of December 31, 2011 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, results of operations, and cash flows of its proprietary funds, 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, and preventing and detecting fraud.

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

1. 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.
2. We are responsible for the maintenance of the books and records of the City of Waukesha's Business Improvement District in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. We confirm to the best of our knowledge and belief that all accounts and transactions of the BID are recorded in the books.
2. We have made available to you all -
 - a. Financial records and related data.
 - b. Minutes of the meetings of the BID board and summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. All known audit and bookkeeping adjustments have been included in our financial statements and we are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - 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.
8. We have no knowledge of any allegations of fraud or suspected fraud, affecting the entity, received in communications from employees, former employees, analysts, regulators, or others.
9. The BID has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the municipality is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied and adequately disclosed.
11. We are responsible for compliance with the 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, including legal and contractual provisions for reporting specific activities in separate funds.

12. There are no -
 - a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, federal, state, and local laws or regulations including those pertaining to adopting and amending budgets, 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.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
13. The BID has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
14. The BID has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
15. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
16. The financial statements properly classify all funds and activities.
17. Provisions for uncollectible receivables have been properly identified and recorded.
18. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
19. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
20. We have appropriately disclosed the BID'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 assets are available and have determined that net assets were properly recognized under the policy.
20. 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

Baker Tilly Virchow Krause, LLP

July 23, 2012

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We have evaluated and classified any subsequent events as recognized or unrecognized through the date of this letter. To the best of our knowledge and belief, 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.

Sincerely,

CITY OF WAUKESHA BUSINESS IMPROVEMENT DISTRICT

Signed: Meghan Sprager
Ms. Meghan Sprager, Executive Director

Signed: Norm Bruce
Mr. Norm Bruce, President