

# **CITY OF NEENAH**

Neenah, Wisconsin

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2018

# CITY OF NEENAH

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

Mayor Kaufert, President Stevenson,  
and Members of the Common Council and Management  
City of Neenah  
Neenah, Wisconsin

In planning and performing our audit of the financial statements of the City of Neenah as of and for the year ended December 31, 2018, 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.

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

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 certain deficiencies in internal control that we consider to be significant deficiencies.

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

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

- > Internal Control Over Financial Reporting
- > Joint Municipal Court – Segregation of Duties
- > Joint Municipal Court – Voids and Adjustments

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

Madison, Wisconsin  
June 26, 2019

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of significant transaction cycles and an analysis of the City of Neenah's ("City") year-end financial reporting process and preparation of your financial statements.

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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Properly designed systems of internal control provide your organization with the ability to process and record monthly and year-end transactions and annual financial reports.

Our audit includes a review and evaluation of the City's internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- > There is adequate staffing to prepare financial reports throughout the year and at year-end.
- > Material misstatements are identified and corrected during the normal course of duties.
- > Complete and accurate financial statements, including footnotes, are prepared.
- > Financial reports are independently reviewed for completeness and accuracy.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered a significant deficiency surrounding the preparation of financial statements and footnotes and an independent review of financial reports.

Management has not prepared financial statements that are in conformity with generally accepted accounting principles.

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## **JOINT MUNICIPAL COURT**

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### ***SEGREGATION OF DUTIES***

Under ideal conditions, there are many procedures and controls designed to limit the access of any one individual to all phases of a transaction. It is not uncommon for a decentralized operation such as the Joint Municipal Court to have staff limitations making it difficult to adequately segregate the various financial procedures.

Under the current situation, the one Joint Municipal Court employee is responsible for posting citations into the court system, establishing payment plans with the offenders, collecting and receipting payments, and performing the necessary reconciliations between the City of Neenah's general ledger and the court system. In addition, the Joint Municipal Court maintains a cash drawer where the same court employee is responsible for closing out and depositing collections each day.

A compensating control could be added to mitigate this risk. We recommend that someone from Finance or the Police Department haphazardly sample some original citations and then work with the Joint Municipal Court employee to determine if they were correctly accounted for within the TIPS system. They would also follow the deposits all the way through to the eventual deposit as well.

Because overlapping responsibilities do not exist, management should rely more heavily on your direct knowledge of the Joint Municipal Court's operations and day-to-day contact with the employee to control and safeguard assets. The purpose of this comment is to meet our professional responsibility of communicating possible significant deficiencies to you and make you aware of the importance of having good people and maintaining close contact with them and the operation of the Joint Municipal Court.

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**JOINT MUNICIPAL COURT (cont.)**

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***VOIDS AND ADJUSTMENTS***

The system being used by the Joint Municipal Court to track offenders and process financial information allows the user to void and/or adjust a transaction resulting in the deletion or modification of all financial history relative to the offender. Modifying financial information such as recent collections without supervisory approval or awareness presents certain risks to the collection process. Ideally, a supervisor would be involved in the approval process of voiding or changing transactions, or at a minimum, be able to review historical information to determine if the voids or changes were appropriate.

We recommend the Joint Municipal Court review options available from the software provider of the courts system being used, to determine if modifications are available to strengthen controls over these processes.

**OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**

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

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

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

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

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.
- d. 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 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?

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

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- 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. We perform preliminary audit work during the months of November, 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 issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork but may vary depending on a number of factors.

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

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

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

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## **PRIOR YEAR RECOMMENDATIONS**

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### ***CAPITAL ASSET POLICY***

During the course of the audit, discussions were held regarding the capitalization threshold of the City's assets. The City does have a capital asset policy, but should consider revisiting, and possibly revising, the capitalization thresholds to better align itself with similar governmental operations.

#### ***Status (12/31/18)***

During 2018, the City increased their capitalization threshold for general capital assets to \$10,000 and \$25,000 for infrastructure. However, during 2018, items were still being capitalized below these new thresholds. We recommend the City consider a formal adoption of a capital asset policy whereby these thresholds are stated. This policy could then be used to provide guidance to those responsible for preparing capital asset determinations each year.

### ***INFORMATION TECHNOLOGY CONTROLS***

We recommend that the City evaluate the implementation of the following controls:

- > A formal software policy should be developed that outlines the process and requirements for developing any new software. A system development lifecycle should be developed to facilitate any internal software development projects.
- > Best Practice states passwords should be changed every 90 days, require a minimum of 6 characters, require strong passwords, and passwords should be remembered so users cannot reuse recent passwords.
- > Backups should be tested regularly to ensure they are working properly.

#### ***Status (12/31/18)***

These recommendations still pertain.

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**PRIOR YEAR RECOMMENDATIONS (cont.)**

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***MENASHA-NEENAH MUNICIPAL COURT DEFICIT***

The City of Neenah and the City of Menasha established a joint venture creating the Menasha-Neenah Municipal Court. Each city's proportionate share in the annual operations is equal to the percentage share of citations issued by that city compared to the total citations issued by both cities. The deficit allocation as of December 31, 2018 was approximately 60% for the City of Neenah and 40% for the City of Menasha.

For the past seventeen years, the court has operated at a deficit that has increased every year until this year. As of December 31, 2018, the court had a deficit of \$278,062. The allocation of this is as follows.

City of Menasha	\$ 100,396
City of Neenah	<u>177,666</u>
Total	<u>\$ 278,062</u>

As of the end of the year, the court has been advanced monies to cover a portion of this deficit. The balance of the deficit is being funded by the City of Neenah by borrowing from another city fund. We recommend that the participating communities determine how the court will repay these funds. If the court is unable to repay the funds, we recommend that Neenah and Menasha budget for this deficit and make the appropriate transfers. In addition, to avoid potential future shortfalls, the two communities should consider restructuring the fees charged to finance operations.

***Status (12/31/18)***

During 2018, both cities began reducing the deficit. The City of Neenah paid \$10,000 and the City of Menasha applied \$31,675. The City of Neenah has budgeted \$10,000 in their 2019 budget to further reduce this deficit. This recommendation still pertains.

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**INFORMATIONAL POINTS**

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***TAX INCREMENT FINANCING DISTRICTS***

For the last several years, we have communicated to you an informational point regarding economic conditions and your community. A focus of that communication has been the status of the City's tax incremental financing (TIF) districts and their continued reliance upon other funds of the City. While it is not unusual for active TIF districts to rely upon or borrow from other funds during their earlier years, it also requires careful monitoring through TIF projections. Performing TIF projections is not something that is within the scope of a financial audit. The distinction is that an audit looks back to determine the current status of a TIF, while a projection attempts to estimate the long-term viability of a TIF, including whether or not it will be able to meet its debt obligations during its life.

We recommend the City continue to update its TIF projections, including the amounts other funds have advanced or loaned to the TIFs.

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**INFORMATIONAL POINTS (cont.)**

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**TAX INCREMENT FINANCING DISTRICTS (cont.)**

As of year-end for the past four years, the following TIF Districts had an advance recorded from other funds:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
TIF No. 5	\$ 891,000	\$ 891,000	\$ 891,000	\$ 891,000
TIF No. 6	2,045,000	1,430,110	1,250,000	1,250,000
TIF No. 8	6,661,960	5,332,337	5,518,257	6,069,269
TIF No. 10	-	-	521,900	918,958
TIF No. 11	-	-	37,100	75,917
Total	<u>\$ 9,597,960</u>	<u>\$ 7,653,447</u>	<u>\$ 8,218,257</u>	<u>\$ 9,205,144</u>

These monies were advanced by the following funds:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital Projects –				
Public Infrastructure	\$ 891,000	\$ 891,000	\$ 891,000	\$ 891,000
TIF No. 5	655,000	699,240	736,560	772,661
TIF No. 7	2,657,790	901,410	725,590	682,790
TIF No. 6	337,000	-	271,630	577,989
Debt service	3,600,000	4,518,417	5,418,417	6,118,417
TIF No. 8	340,000	170,000	-	-
TIF No. 9	-	-	160,570	162,287
TIF No. 10	1,117,170	473,380	14,490	-
Total	<u>\$ 9,597,960</u>	<u>\$ 7,653,447</u>	<u>\$ 8,218,257</u>	<u>\$ 9,205,144</u>

The City must formally evaluate on a regular basis whether these funds have the ability to repay these advances. If the monies are not available, the City will be required to determine the appropriate allowances. As part of the audit process, we have not been provided a detailed analysis of when these funds will have sufficient reserves to repay their obligations,

Your community's long-term success is important. As a governing body, your involvement and understanding of your community's financial activities will help you make informed decisions regarding the future of your community. Please feel free to contact us if you have questions – we are happy to discuss these topics in further detail.

**DECENTRALIZED CASH COLLECTIONS**

Many governments collect cash at numerous decentralized locations that are separate from the primary system of accounting procedures and controls. The opportunity for theft is often higher at those locations because one person is frequently involved in most, if not all, aspects of a transaction (i.e., lack of segregation of duties).

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## **INFORMATIONAL POINTS (cont.)**

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### ***DECENTRALIZED CASH COLLECTIONS (cont.)***

Examples in your government that fit this situation include: parks and recreation (pool), joint municipal court, police, and the library.

Management is responsible for designing and implementing controls and procedures to detect and prevent fraud. As a result, we recommend that management review its decentralized cash collection procedures and controls on a periodic basis and make changes as necessary to strengthen the internal control environment. Reviewing the adequacy of the controls is a responsibility of the governing body.

Below are example procedures and controls to help mitigate the risk of loss at decentralized cash collection points:

- > Implement a centralized receipting process with adequate segregation of duties
- > For cash collections, ensure pre-numbered receipts are being used and all receipts in the sequence are being reviewed by someone other than the person receipting the cash and receipts tie to deposits
- > Perform surprise procedures at decentralized locations (cash counts, walkthrough of processes, etc.)
- > Require regular cash deposits to minimize collections on-hand
- > Limit the number of separate bank accounts
- > Segregate duties as much as possible – the person receipting cash should be separate from the person preparing deposits and the person reconciling bank accounts should be separate from the cash collection activity
- > Perform month-to-month or year-to-year comparisons to look for unusual changes in collections
- > If collecting from a drop box site, consider sending two people to collect the funds, especially during peak times

As always, the cost of controls and staffing must be weighed against the benefits of safeguarding your assets.

### ***GASB UPDATES***

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

- > GASB 83 provides accounting and financial reporting for asset retirement obligations, effective for reporting periods beginning on or after June 15, 2018
- > GASB 84 improves guidance regarding the identification of fiduciary activities and how they should be reported, effective for reporting periods beginning on or after December 15, 2018

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## **INFORMATIONAL POINTS (cont.)**

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### ***GASB UPDATES*** (cont.)

- > GASB 88 improves certain disclosures related to debt, including direct borrowings and placements, effective for reporting periods beginning on or after June 15, 2018
- > GASB 90 clarifies accounting and financial reporting for majority equity interests, effective for reporting periods beginning on or after December 15, 2018

Other GASB pronouncements are on the horizon, while the implementation dates are in the near term these are anticipated to have significant impacts on many government financial statements:

- > GASB 87 improves accounting and financial reporting for leases, effective for reporting periods beginning on or after December 15, 2019
- > GASB 89 provides guidance for accounting for interest cost incurred before the end of a construction period, effective for reporting periods beginning on or after December 15, 2019

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

- > Conceptual Framework
  - Disclosure
  - Recognition
- > Major Projects
  - Financial Reporting Model
  - Revenue and Expense Recognition
  - Public-Private Partnerships
- > Practice Issues
  - Conduit Debt
  - Deferred Compensation Plans
  - Secured Overnight Financing Rate
  - Subscription-Based IT arrangements
  - Implementation Guidance
- > Pre-Agenda Research
  - Going Concern
  - Compensated Absences
  - Prior-Period Adjustments, Accounting Changes and Error Corrections

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

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

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## INFORMATIONAL POINTS (cont.)

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### *UPCOMING LEASE STANDARD*

In June 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This standard is effective for fiscal years ending on or after December 31, 2020. Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognize as inflows of resources or outflow of resources based on the payment provisions of the contract.

Under the new standard a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined by 1) the right to obtain the present service capacity from the use of the underlying asset and 2) the right to determine the nature and manner of use of the underlying asset. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this statement. Leases include contracts that, although not explicitly identified as leases, meet the above definition of a lease.

The following are contract exclusions and exceptions from applying lease accounting:

- > Intangible assets (mineral rights, patents, software, copyrights)
- > Biological assets (including timber, living plants, and living animals)
- > Service concession arrangements (See GASB Statement 60)
- > Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- > Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)
- > Inventory
- > Short-term leases - max possible term 12 mo or less
- > Leases that transfer ownership and do not contain termination options
- > Leases of assets that are investments
- > Certain regulated leases (e.g., airport-airline agreements)

We recommend the City review this standard and start planning how this will affect your financial reporting. An inventory of all contracts that might meet the definition of a lease should be started. The contract listing should include key terms of the contracts such as:

- > Description of contract
- > Underlying asset
- > Contract term
- > Options for extensions and terminations
- > Service components, if any
- > Dollar amount of lease

In addition, the City should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

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## INFORMATIONAL POINTS (cont.)

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### ***NEW REPORTING REQUIREMENTS FOR FIDUCIARY ACTIVITIES***

In January 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to address how governments report fiduciary activities which is effective for fiscal years ending on or after December 31, 2019. Statement No. 84, *Fiduciary Activities*, supersedes reporting of agency funds and replaces it with a newly coined custodial fund, and requires several additional reporting requirements for fiduciary funds.

Under current guidance, Statement 34 requires that governments report fiduciary activities in fiduciary funds, but that statement does not provide a clear definition of what constitutes a fiduciary activity. GASB sought to reduce inconsistencies in reporting and provide a clear foundation for future reporting. The new guidance will impact a significant amount of local governments. Many local governments have activities that may be considered fiduciary, including:

- > Student activity funds of a school district
- > Tax collection funds
- > Circuit court fund of a municipality or county
- > Jail inmate accounts
- > Nursing home patient accounts
- > Cemetery trust funds
- > Postemployment benefit plans

Under the recently issued Statement 84, governments will need to apply specific criteria to determine if a fiduciary activity exists. The criteria focuses on determining if a government is controlling the assets of the potential fiduciary activity and determining who the beneficiaries are. A few of the major changes that will impact many governments include:

- > Pension/OPEB Plans as Fiduciary Component Units: Pension and other postemployment benefit (OPEB) plans will need to be evaluated to determine if they meet the fiduciary component unit criteria.
- > Other Fiduciary Activities: There are various other types of assets that a government controls which will need to be evaluated under the new standard. Part of this evaluation will include identification of the beneficiary of the funds, consideration of how the assets are derived and the extent of administrative or direct financial involvement with the assets.

The following is a summary of two significant changes in the reporting requirements:

- > The standard requires that governments recognize a liability to the beneficiaries in a fiduciary fund only when an event has occurred that compels the government to disburse fiduciary resources.
- > Presentation of additions and deductions on the statement of changes in fiduciary net position for all fiduciary funds, including custodial funds

The time to start assessing your government's fiduciary activities is approaching. Start with reading the new statement and reviewing the nonauthoritative flowchart provided by GASB in the appendix of the statement. This will give you an understanding of the new criteria and requirements and help you identify the fiduciary reporting changes that will impact your financial statements.

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## **INFORMATIONAL POINTS (cont.)**

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### ***RESOURCES FOR STATE AND LOCAL GOVERNMENT BOARDS***

Expectations and accountability are at all-time high and the knowledge required to be an effective board member is substantial. As a benefit to our clients, we have compiled a number of resources dedicated to educating state and local government board members. Go to our Board Governance Resource Center at [www.bakertilly.com/board-governance](http://www.bakertilly.com/board-governance) for more information.

The Resource Center includes the following:

#### **Podcasts**

1. Managing cyber threats: Developing a sustainable cybersecurity program to address your unique risks
2. Understanding utility finances
3. Benefits of a fraud risk assessment
4. Financial ratios and benchmarks
5. Fund balance and other financial policies

#### **Articles**

1. Securitization of deposits and investments
2. Five easy internal controls your government should implement
3. Fund balance levels: What works for your government?
4. The importance of smart spending cuts

We encourage you to subscribe to our complimentary newsletter “Government Connection” to stay abreast of the latest issues impacting state and local governments. You can do so by clicking on the “subscribe” button and indicating “State and Local Government” as an area of interest on the subscription form. Also, if you or your board members have suggested topics to feature on our Board Governance webpage or Government Connection newsletter, we invite you to submit your ideas in person or online.

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

Mayor Kaufert, President Stevenson,  
and Members of the Common Council and Management  
City of Neenah  
Neenah, 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 Neenah for the year ended December 31, 2018 and have issued our report thereon dated June 26, 2019. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE  
UNITED STATES OF AMERICA***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated June 27, 2018 and our meeting with you on July 18, 2018.

## ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

### ***Accounting Policies***

Management has the responsibility for 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 of Neenah are described in Note I to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2018. We noted no transactions entered into by Neenah 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 the estimate of the allowance for loans, which was based upon historical data from past loan history, the estimate of the net pension liability (asset) and the deferred outflows and inflows related to pensions, which impact the reported pension expense, are based upon information provided by the Wisconsin Retirement System, and the estimates used to determine depreciation of capital assets which is based upon management's estimate of the useful lives of those same capital assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### ***Financial Statement Disclosures***

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

### ***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

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

### ***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatement 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.

We noted one material financial statement misstatement (audit adjustment) which was to adjust the restricted cash in the CDA fund in the amount of \$183,132.

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

### ***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

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

### ***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

### ***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the City of Neenah 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 Neenah for the year ended December 31, 2018, 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 and GASB 34 conversion entries
- > Civic Systems software (water utility)

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 of Neenah's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OTHER MATTERS**

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method 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.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information, and we do not express an opinion or provide any assurance on it.

**RESTRICTION ON USE**

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

We will review the status of these comments during our next audit engagement. We have already discussed the previous comments and suggestions with various city personnel, and we would be pleased to discuss them with you in further detail.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
June 26, 2019

## **MANAGEMENT REPRESENTATIONS**



*Department of Finance*

211 Walnut St., P.O. Box 426, Neenah, WI 54957-0426

Phone: 920-886-6140 Fax: 920-886-6150

website/e-mail: [www.ci.neenah.wi.us](http://www.ci.neenah.wi.us)

June 26, 2019

Baker Tilly Virchow Krause, LLP  
211 Walnut Street  
Neenah Wisconsin 54956

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Neenah as of December 31, 2018 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Neenah 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 the component unit required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, if any, are reasonable.
6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
7. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
8. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
9. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
10. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

11. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the City Council and the CDA or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. There are no known related parties or related party relationships and transactions of which we are aware.

*Other*

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
18. We have a process to track the status of audit findings and recommendations.
19. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
20. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
21. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
22. There are no:
  - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
  - c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
  - d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
  - e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
23. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
  - a. Financial statement preparation
  - b. Adjusting journal entries
  - c. Civic Systems software

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
24. The City of Neenah 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 Neenah has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

26. The financial statements include the material component unit and properly disclose all other joint ventures and other related organizations.
27. The financial statements properly classify all funds and activities.
28. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
29. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
30. The City of Neenah has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
31. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
32. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
33. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
34. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
35. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
36. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
37. Tax-exempt bonds issued have retained their tax-exempt status.
38. We have appropriately disclosed the City of Neenah's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
39. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

40. With respect to the supplementary information, (SI):

a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

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

42. We assume responsibility for, and agree with, the information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.

43. We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.

44. We have evaluated and considered all debt reported as defeased in substance and believe all material amounts held in trust that are not expressly prohibited from substitution in monetary assets that are not essentially risk-free are properly disclosed.

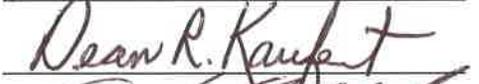
45. We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.

46. We believe that the City's liability for other post-employment benefits is not material to the financial statements.

Sincerely,

City of Neenah

Signed: 

Signed: 

Signed: 