

MANAGEMENT COMMUNICATIONS

CITY OF MERRILL, WISCONSIN

DECEMBER 31, 2013

CITY OF MERRILL, WISCONSIN
December 31, 2013

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To the City Council
City of Merrill
Merrill, Wisconsin

We have completed our audit of the basic financial statements of the City of Merrill (the "City") as of and for the year ended December 31, 2013. The City's financial statements, including our report thereon dated May 6, 2014, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, noncompliance with the provisions of laws, regulations, contracts and grants or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal and state programs 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'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's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" and the *State Single Audit Guidelines* applicable to each of its major federal and state programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

Significant Audit Findings

Consideration of Internal Control

In planning and performing our audit of the financial statements of the City as of and for the year ended December 31, 2013, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 38 - 39 of the annual report.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will be not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

- Finding 2013-001 Preparation of Annual Financial Report
- Finding 2013-002 Financial Reporting for Federal and State Financial Assistance

These findings are described in detail in the schedule of findings and questioned costs on pages 46 - 47 of the report on Federal and State awards.

Qualitative Aspects of Accounting Practices

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 A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no significant transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

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

Depreciable Life of Capital Assets

- Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.

Accumulated Sick Leave

- Management's estimate of accumulated sick leave is based upon analysis of the employees sick leave balance. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The financial statements reflect all accounting adjustments proposed during our audit. The adjustments included various end of year payable, receivable and reclassification entries. These entries are considered routine in nature and normally do not vary significantly from year to year. Copies of the audit adjustments are available from management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 6, 2014. The management representation letter follows this communication.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on 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.

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 conducting the audit. These discussions occurred in the normal course of our professional relationship and, to the best of our knowledge, our responses were not a condition to our retention.

This communication, which does not affect our report dated May 6, 2014 on the financial statements of the City, is intended solely for the information and use of the City Council, management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Certified Public Accountants
Green Bay, Wisconsin
May 6, 2014

SUMMARY FINANCIAL INFORMATION

1. City Governmental Fund Balances

Presented below is a summary of the various City governmental fund balances on December 31, 2013, including a comparison to the prior year. This information is provided for assisting management in assessing financial results for 2013 and for indicating financial resources available at the start of the 2014 budget year.

	12/31/13	12/31/12
General Fund		
Nonspendable		
Inventories and prepaid items	\$ 120,297	\$ 139,085
Restricted		
Capital improvements	649,873	-
Committed for		
Nonlapsing reserves	1,474,598	478,132
Assigned for		
Capital improvements	-	37,856
Tornado recovery	-	175,921
Unassigned	1,844,266	107,292
Total Fund Balance	4,089,034	938,286
Special Revenue Funds		
Community development block grant		
Restricted for community development	358,075	367,479
Library		
Restricted for library endowment	504,085	539,280
Remedial action		
Nonspendable for long-term advances	302,100	393,789
Restricted for landfill monitoring	181,286	87,404
Total Remedial action	483,386	481,193
Total Special Revenue Funds	1,345,546	1,387,952
Debt Service Fund		
Restricted for debt service	29,791	6,388
Capital Projects Funds		
Restricted for TID project plan		
TIF No. 3	270,548	264,187
TIF No. 4	163,620	299,008
Unassigned		
TIF No. 5	(2,176)	(3,221)
TIF No. 6	(439,488)	(502,064)
TIF No. 7	(33,775)	(32,955)
TIF No. 8	(597,473)	(307,599)
TIF No. 9	(15,817)	-
Total Capital Projects Funds	(654,561)	(282,644)
Total Governmental Fund Balances	\$ 4,809,810	\$ 2,049,982

2. Water Utility Operating Results

A comparative summary of the water utility's operating results for the years ending December 31, 2013 and 2012 follows:

	2013	2012
Operating Revenues		
Charges for services	\$ 1,270,474	\$ 1,245,699
Other	106,097	107,935
Total Operating Revenues	<u>1,376,571</u>	<u>1,353,634</u>
Operating Expenses		
Operation and maintenance	682,885	663,573
Depreciation	357,334	321,817
Total Operating Expenses	<u>1,040,219</u>	<u>985,390</u>
Operating Income	<u>336,352</u>	<u>368,244</u>
Nonoperating Revenues (Expenses)		
Interest income	2,608	6,850
Merchandising and jobbing	6,168	2,573
Interest and fiscal charges	(33,529)	(10,917)
Other income	-	-
Total Nonoperating Revenues (Expenses)	<u>(24,753)</u>	<u>(1,494)</u>
Income before transfers and contributions	311,599	366,750
Capital contributions	-	240,802
Transfers out - payment in lieu of taxes	<u>(326,026)</u>	<u>(259,011)</u>
Change in Net Position	<u>\$ (14,427)</u>	<u>\$ 348,541</u>

The City's water utility reported an operating income of \$336,352 compared to \$368,244 for the prior year. To further evaluate the operating activities, we have calculated the water utility's rate of return below.

Rate of Return - The Public Service Commission of Wisconsin (PSC) de net rate base. Presented below is the calculation of the rates of return for 2013 and 2012 for the water utility based on the format used by the PSC: The PSC operating income differs from the above operating income by the following items:

- The PSC considers the property tax equivalent to be an expense in the year accrued while the property tax equivalent is considered an expense for financial reporting purposes in the year transferred to the City.
- The PSC no longer allows the water utility to recover depreciation on contributed plant from current rates; therefore, this depreciation expense is removed from PSC operating income.

	2013	2012
Rate of Return	<u>0.86%</u>	<u>2.28%</u>

Summary Comment: The rate of return generated was lower than the authorized rate of return (5.42%). The water utility reported a cash and investment balance at the December 31, 2013 of \$1,489,627, compared to a balance of \$1,187,645 at December 31, 2012. The water utility generated cash flows from operations of \$630,784 in 2013 compared to \$772,495 in 2012 and net cash inflow from all activities of \$323,529 in 2013 compared to net cash inflow of \$522,346 in 2012. New water rates authorized by the PSC were effective beginning December 1, 2013 and it is anticipated they will increase annual revenues by \$121,600.

3. Sewer Utility Operating Results

A comparative summary of the sewer utility's operating results for the years ending December 31, 2013 and 2012 follows:

	2013	2012 (Restated)
Operating Revenues		
Charges for services	\$ 1,435,894	\$ 1,395,772
Other	145,896	90,894
Total Operating Revenues	<u>1,581,790</u>	<u>1,486,666</u>
Operating Expenses		
Operation and maintenance	900,406	942,124
Depreciation	315,931	310,371
Total Operating Expenses	<u>1,216,337</u>	<u>1,252,495</u>
Operating Income	<u>365,453</u>	<u>234,171</u>
Nonoperating Revenues (Expenses)		
Interest income	2,623	4,604
Interest expense	(7,221)	(7,715)
Other income	5,697	141,089
Total Nonoperating Revenues (Expenses)	<u>1,099</u>	<u>137,978</u>
Change in Net Position	<u>\$ 366,552</u>	<u>\$ 372,149</u>

Because the sewer utility is not regulated by the PSC and treatment plants are typically capital intensive with depreciation expense being a significant component of operating expenses, it is important to consider cash flows when evaluating the sewer utility operating results. For the year ended December 31, 2013, the cash generated by operating activities totaled \$648,506 compared to \$400,062 for 2012. As of December 31, 2013, the sewer utility had cash from operations of \$125,883, an increase of \$292,835 from the prior year, and restricted cash and investment balance of \$903,668. The increase in cash was primarily due to a decrease in 2013 capital asset investment. As of December 31, 2013, the future debt services are as follows:

Year Ended December 31	General Obligation	Interest	Total
2014	\$ 30,500	\$ 7,700	\$ 38,200
2015	31,000	6,800	37,800
2016	31,500	6,000	37,500
2017	32,000	5,100	37,100
2018	32,600	4,200	36,800
2019-2023	82,100	9,300	91,400
2024-2026	19,940	1,900	21,840
	<u>\$ 259,640</u>	<u>\$ 41,000</u>	<u>\$ 300,640</u>

APPENDIX

May 6, 2014

Schenck SC
2200 Riverside Drive
P.O. Box 23819
Green Bay, WI 54305-3819

This representation letter is provided in connection with your audit of the financial statements of the City of Merrill, (the "City"), which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2013, and the respective changes in the financial position and where applicable, cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items in No. 47 are considered material based on the materiality criteria specified in OMB Circular A-133 and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in 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, as of May 6, 2014, 2014, 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 dated November 13, 2013, including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
3. In regards to accounting estimates:
 - The measurement processes used by management in determining accounting estimates is appropriate and consistent.
 - The assumptions appropriately reflect management's intent and ability to carry out specific courses of action.
 - The disclosures related to accounting estimates are complete and appropriate.

- No subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.
4. 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.
 5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
 6. Significant assumptions we used in making accounting estimates are reasonable.
 7. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
 8. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
 9. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the City's accounts.
 10. We are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 11. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

12. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedules of expenditures of federal awards and state financial assistance.

14. We made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:
 - a. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - i. Management,
 - ii. Employees who have significant roles in internal control, or
 - iii. Others where the fraud could have a material effect on the financial statements.
 - b. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
15. We have disclosed to you all 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. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
17. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

Government - specific

18. We have made available to you all financial records and related data.
19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
22. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred inflows/outflows of resources, or equity.
23. We are responsible for compliance with the 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 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.
24. There are no violations or possible violations of budget ordinances, laws and 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.

25. As part of your audit, you assisted with preparation of the financial statements and related notes, state financial report, Public Service Commission annual report, the schedule of expenditures of federal awards, and the schedule of state financial assistance. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, state financial report, Public Service Commission annual report, the schedule of expenditures of federal awards, and the schedule of state financial assistance.
26. The City 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.
27. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
28. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
29. 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.
30. The financial statements properly classify all funds and activities.
31. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 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.
32. 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.
33. Provisions for uncollectible receivables have been properly identified and recorded.
34. 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.
35. Revenues are appropriately classified in the statement of activities within program revenues, general revenues.
36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
37. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
39. Joint ventures, jointly governed organizations, and other related organizations have been properly disclosed in the financial statements.
40. We have appropriately disclosed the City'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 is available and have determined that net position were properly recognized under the policy.

41. We acknowledge our responsibility for presenting the nonmajor fund combining statements (the supplementary information) in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, 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 supplementary information 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.
42. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the City's name" during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.
43. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
44. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
45. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
46. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Insurance recoveries have been properly recorded.
47. With respect to federal and state award programs:
 - a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration, including requirements relating to preparation of the schedule of federal awards and the schedule of state financial assistance.
 - b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b and the schedule of state financial assistance (SSFA) in accordance with the requirements of the *State Single Audit Guidelines* and we believe the SEFA and SSFA, including their form and content, are fairly presented in accordance with the Circular and the Guidelines. The methods of measurement or presentation of the SEFA and SSFA 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 SEFA and SSFA.
 - c. If the SEFA and SSFA are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA and SSFA information no later than the date we issue the SEFA and SSFA and the auditors' report thereon.

- d. 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* and included in the SEFA and SSFA made during the audit period for all awards provided by federal and state agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.
- f. 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 managing 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.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relevant to federal and state programs and related activities.
- h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i. 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 all known noncompliance with the requirements of federal and state awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, 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.
- l. 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*.
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.

- o. 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.
 - p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
 - q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
 - r. 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.
 - s. 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.
 - t. We have charged costs to federal and state awards in accordance with applicable cost principles.
 - u. 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.
 - v. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
 - w. We are responsible for preparing and implementing a corrective action plan for each audit finding.
48. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. 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.

Signed: _____
Dave Johnson
City Administrator

Signed: _____
Kathy Unertl
Finance Director