

CITY OF STOUGHTON

Stoughton, Wisconsin

**COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT**

As of and for the Year Ended December 31, 2017

CITY OF STOUGHTON

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

To the City Council
City of Stoughton
Stoughton, Wisconsin

In planning and performing our audit of the financial statements of the City of Stoughton as of and for the year ended December 31, 2017, 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 material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the city's internal control to be material weaknesses:

- > Internal Control Over Financial Reporting
- > Internal Control Environment

This communication is intended solely for the information and use of the city 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 Veitchau Krause, LLP

Madison, Wisconsin
May 16, 2018

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's year-end financial reporting process and preparation of your financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Properly designed systems of internal control provides your organization with the ability to process and record accurate monthly and year end transactions and prepare 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 and at the end of the year.
- > 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 city's internal controls relating to financial reporting has identified control deficiencies that are considered material weakness surrounding the preparation of financial statements and footnotes, adjusting journal entries identified by the auditors, and an independent review of financial reports.

Management has not prepared financial statements that are in conformity with generally accepted accounting principles. In addition, material misstatements in the general ledger were identified during the financial audit.

This level of internal control over financial reporting can be a difficult task for governments that operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to prepare certain year-end audit entries and financial statements.

INTERNAL CONTROL ENVIRONMENT

A properly designed system of internal control includes adequate staffing as well as policies and procedures to properly segregate duties. This includes systems that are designed to limit the access or control of any one individual to your government's assets or accounting records, and to achieve a higher likelihood that errors or irregularities in the city's accounting processes would be discovered by your staff in a timely manner.

At this time, due to staffing and financial limitations, the city does not have proper internal controls in place to achieve adequate segregation of duties. As a result, errors or irregularities could occur as part of the financial process that may not be discovered by the city. Therefore, we are reporting a material weakness related to the city's internal control environment.

There are also certain controls that are not currently in place related to significant transaction cycles. As a result, there is a risk that erroneous or unauthorized transactions or misstatements could occur without the knowledge of management or the governing body. Our recommendations for strengthening controls are listed below.

CONTROLS OVER ACCOUNTS PAYABLE/DISBURSEMENTS

There should be controls in place surrounding the identification, recording, and review of retainages and encumbrances at year end.

INTERNAL CONTROL ENVIRONMENT (cont.)

CONTROLS OVER PROPERTY TAXES

Bank reconciliations should be performed by someone independent of the tax collection process.

CONTROLS OVER FINANCIAL REPORTING

Account reconciliations should be performed by someone independent of the processing of transactions in the account.

We recommend that a designated employee review the segregation of duties, risks, and these potential controls and determine whether additional controls should be implemented. This determination should take into consideration a cost/benefit analysis.

OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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

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

- a. We address the significant risks 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 American, 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?
- 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?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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

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

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

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

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

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

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

PRIOR YEAR POINTS

COLLATERAL FOR BANK DEPOSITS (PER 12/31/08 LETTER)

Governmental Accounting Standards Board (GASB) Statement No. 40 requires disclosures about various risks associated with the city's deposits and investments. These disclosures can be found in Note IV.A of the financial statements.

One of the required disclosures is custodial credit risk. Custodial credit risk is the risk that in the event of a financial institution failure, the city's deposits may not be returned. To address this risk, the city has collateral agreements with its primary bank to cover deposits in excess of the FDIC limits. However, a portion of the city's deposits and investments was exposed to custodial credit risk because the collateral was insufficient to cover all city deposits. In addition, the current collateral agreement in place with the city's primary bank allows for the collateral to be held in the trust department of this bank. GASB No. 40 states that this type of custodial arrangement exposes the city to greater risk than if the collateral was held by an independent third party custodian.

We recommend that the city evaluate its current collateral situation to determine if adjustments are desired.

Status (12/31/17)

A total of \$8,089,533 of deposits and investments were exposed to some level of custodial credit risk as of December 31, 2017.

INFORMATIONAL POINTS

DECENTRALIZED CASH COLLECTIONS

As part of our annual audit process, we focus our efforts on the primary accounting systems, internal controls, and procedures used by the city. This is in keeping with our goal to provide an audit opinion which states that the financial statements of the city are correct in all material respects.

In some cases, the primary system of accounting procedures and controls of the city are supported by smaller systems which are decentralized, and reside within a department or outside location. Specifically for the City of Stoughton, there are departments that collect cash and periodically remit those collections to city hall. Examples include the recreation department and senior center, among others.

Generally, the more centralized a function is, the easier it is to design and implement accounting controls that provide some level of checks and balances. That is because you are able to divide certain tasks over the people available to achieve some segregation of duties. For those tasks that are decentralized, it is usually very difficult to provide for proper segregation of duties. Therefore, with one person being involved in most or all aspects of a transaction, you lose the ability to rely on the controls to achieve the safeguarding of assets and reliability of financial records.

As auditors, we are required to communicate with you on a variety of topics. We believe it is appropriate to make sure that you are informed about the risks that can occur with decentralized cash collections.

INFORMATIONAL POINTS (cont.)

CONTROLS OVER INFORMATION TECHNOLOGY

As part of our audit, we evaluated the information technology controls as they relate to financially significant applications. Our procedures primarily focused on documenting and evaluating general computer controls, including:

- > Logical access to data and applications
- > Change and incident management
- > Systems development and deployment
- > Data backup and recovery

The following points contain suggestions for strengthening internal controls in these areas.

- > Passwords should be changed every 90 days, require a minimum of 6 characters, require strong (complex) passwords, and password history should be remembered so users can't reuse recent (3-6) previous passwords. Additionally, users should lock after 3-5 failed login attempts.
- > The operating system, database, and applications should be monitored to identify any security violations. The company should proactively monitor both internal access on the network and financial application as well as external access. In addition there should be a procedure to resolve or escalate any security violations.
- > Back-ups should be stored offsite or in a fire proof location.

We recommend that a designated employee review the risks and these potential controls and determine whether additional controls should be implemented. This determination should take into consideration a cost / benefit analysis.

CYBER SECURITY

Cybersecurity continues to be a top concern and is critical for governments of all sizes and types. Information demands from the board and directors, citizens/customers, investors and analysts, and industry regulators continue to increase which makes it critical to ensure key data is protected. Potential business impacts on security incidents can include:

- > Lost IP
- > Business interruption
- > Regulatory fines and penalties
- > Legal and PR fees
- > Remediation costs
- > Reputation

AICPA has recently developed a cybersecurity risk management reporting framework that includes a new System and Organization Controls (SOC) for Cybersecurity engagement, through which the enterprise-wide cybersecurity risk management program is reviewed. Although not required for governments, this new standard can be used to help the city begin to put in place a cybersecurity program.

We recommend reviewing this new standard and performing an initial cyber-risk assessment to identify the types and location of data on your system as well as considering the sensitivity or potential regulations associated with your data. Once this is done the cybersecurity program objectives can be further defined so informed decisions can be made.

Our professionals are also available to assist with your cybersecurity questions, assessments, and programs.

INFORMATIONAL POINTS (cont.)

GOVERNMENT FRAUD PREVENTION AND DETECTION: VENDOR FRAUD

Vendor fraud poses a unique threat to governments. Due to the public and transparent nature of operations, government entities have an increased susceptibility for this type of criminal activity. Since governments publish a significant amount of information online — for example, meeting minutes, which often contain vendor names, contract amounts and project status — it is easier for fraudsters to create falsified documents.

Fraud specialists have noted recent fraud cases where criminals falsified vendor change requests for legitimate vendors, including company addresses and bank account information for Electronic Fund Transfers (EFT). When governments unwittingly process these fraudulent changes, the perpetrators can collect payments on legitimate and approved vendor invoices — while legitimate vendors go unpaid. Preventing vendor fraud completely may be impossible; however, governments can go a long way towards protecting themselves by taking appropriate safety and control measures.

Help ensure your vendor transactions are secure and authentic by:

- > Performing a risk assessment that focuses on vendor accounts payable activities.
- > Periodically revisiting your control activities.
- > Educate your employees on potential fraud schemes.
- > Identify which vendors may be high-risk targets.

Our fraud experts are also available to assist with your fraud risk questions, assessments, and programs.

INTERPRETING YOUR FINANCIAL STATEMENTS POST-GASB No. 73

Now that your financial statements reflect the new pension requirements of GASB Statement No. 73, what has changed and how do you interpret this new information? In summary, GASB Statement No. 73 required governmental entities that provide defined benefits through a non-trusted pension plan to report the total pension liability in their full accrual financial statements. The standard is intended to parallel GASB Statements No. 67 and 68 for pensions provided through trusts, which together provide for more overall consistency and comprehensive guidance for pensions.

Previously, your government only reported a net pension liability (or asset) to the extent that annual contributions fell short of (or exceeded) the actuarially estimated annual pension cost. Now, your government is required to report the total pension liability; there are also pension-related deferred outflows or inflows due to the timing of benefit payments and to allow for smoothing of activity.

As of the December 31, 2016 measurement date used for your financial statements, the actuarially determined total pension liability for your firemen's pension plan is \$1,268,731 and is reported as a noncurrent liability.

Pension activity under GASB Statement No. 73 is reported in the government-wide financial statements, similar to long-term debt. The implementation of this new standard does not affect how you pay for or fund your pension benefits.

The accounting and reporting of pensions has become more complex with the implementation of GASB Statement No. 73. We are available to answer questions on how this new accounting standard affects your financial statements.

INFORMATIONAL POINTS (cont.)

RE-EVALUATING OTHER POST-EMPLOYMENT BENEFITS

Recently GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replacing the requirements of GASB No. 45 which was issued in 2004. While GASB No. 75 provides for several significant changes from GASB No. 45, the implications for local government employers providing health insurance through community rated plans, such as the State of Wisconsin Public Employers Group Health Insurance program, result in the need to re-evaluate if an “other post-employment benefit” exists.

GASB defines other post-employment benefits, or OPEBs, to include implicit rate subsidies. This concept is based on the fact that age adjusted premiums for retirees are typically higher than for younger or active employees. As such, if retirees are allowed to remain on the government’s health insurance plan at their own cost but paying the same premium as active employees, the government is paying a higher premium for those active employees than they otherwise would and thus providing a benefit to the retirees through this implicit rate subsidy. GASB No. 45 had incorporated an option for certain multiple employer health care plans to be classified as community rated plans meaning that the pool of participants was large enough to assume that the unadjusted premium was equal to the age adjusted premium, or there was no implicit rate subsidy.

Changes in the actuarial standards of practice (ASOP) have eliminated the broad application of the community rated plan exception and under GASB No. 75 it is no longer provided. **This means that governments providing benefits to current employees through such plans and allowing retirees to purchase coverage at the blended or unadjusted premium now need to evaluate the magnitude of their OPEB liability to determine if it needs to be recognized, reported and disclosed under the new standards.**

As the city currently participates in such a plan, management needs to engage an actuary to perform an actuarial valuation. This valuation will be necessary for management’s determination as to whether the city has a material OPEB liability. Because of the time needed for management to gather the required data for the actuary and the actuary to complete the calculations and report incorporating all of the information required by GASB we recommend that management start this process early to ensure compliance within the city’s December 31, 2018 audited financial statements.

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.

INFORMATIONAL POINTS (cont.)

UPCOMING LEASE STANDARD (cont.)

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.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the City Council
City of Stoughton
Stoughton, 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 Stoughton for the year ended December 31, 2017 and have issued our report thereon dated May 16, 2018. 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 the city council 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 management letter about planning matters dated June 21, 2017, and our meeting with the finance committee and council on June 27, 2017.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management is responsible 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 Stoughton are described in Note I to the financial statements. As described in Note I to the financial statements, the City of Stoughton changed accounting policies related to defined benefit firemen's pension plan by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 73 - *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. The accounting change has been applied to the current year. No retrospective application was necessary. We noted no transactions entered into by the City of Stoughton 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:

1. Management's estimate of the allowance for uncollectible EMS receivables is based on historical collections.
2. Management's estimate of the net pension liability and related deferred outflows and inflows of resources is based on technical information obtained from the Wisconsin Retirement System.
3. Management's estimate of useful lives of capital assets.
4. Management's estimate of the firemen's pension liability and related deferred outflows and inflows is based on an actuarial study.

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.

CORRECTED AND UNCORRECTED MISSTATEMENTS (cont.)

A summary of uncorrected financial statement misstatements follows this required communication.

Management has determined that their effects are immaterial to the financial statements taken as a whole. The following is a summary of material financial statement misstatements (audit adjustments):

	<u>Amount</u>
Record prior year entries not posted by city	\$ 1,417,660
Record adjustments to special assessments	670,648
Record debt payment for crossover refunding	3,207,367
Record EMS and storm sewer fund debt activity	559,904
Record retirement fund activity	387,953
Record capital assets activity for storm	1,177,779
Adjustment related to proceeds and issuance costs	4,628,606
Adjustments to prepaids and payables	764,091
Record repayment of advance	360,802
Adjust transfers and expenses	485,422

In addition, we prepare 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 that, in our professional judgment, may reasonably be thought to bear on our independence.

INDEPENDENCE (cont.)

Relating to our audit of the financial statements of the City of Stoughton for the year ended December 31, 2017, 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 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
- > Compiled TIF Financial Statements
- > Compiled Regulatory Reports
- > Maintenance of capital asset records
- > Accounting assistance

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

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Stoughton'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 of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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 welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for the opportunity to work with you.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 16, 2018

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

CITY OF STOUGHTON

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS
December 31, 2017

	Financial Statements Effect - Debit (Credit) to Financial Statement Total									
	<u>Current Assets</u>	<u>Noncurrent Assets</u>	<u>Total Assets/Deferred Outflows</u>	<u>Current Liabilities</u>	<u>Noncurrent Liabilities</u>	<u>Total Liabilities/Deferred Inflows</u>	<u>Total Net Position/Fund Balances</u>	<u>Total Revenues</u>	<u>Total Expenses/Expenditures</u>	<u>Change in Net Position/Fund Balances</u>
Governmental Activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 554,280	\$ -	\$ 554,280	\$ 554,280
TIF District No. 7	-	-	-	-	-	(74,684)	(75,684)	-	-	-
General Fund	-	-	-	-	-	35,200	35,200	-	35,200	35,200
Remaining Funds	-	-	-	-	-	-	-	-	(22,092)	(22,092)

MANAGEMENT REPRESENTATIONS



**CITY OF STOUGHTON
FINANCE DEPARTMENT**
381 East Main Street, Stoughton, WI. 53589

(608) 873-6677

www.ci.stoughton.wi.us

May 16, 2018

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Stoughton as of December 31, 2017 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, each major fund, and the aggregate remaining fund information of the City of Stoughton 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 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. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In addition, you have recommended adjusting journal entries, 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.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as 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 or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
12. 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.
13. 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.
14. 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.
15. There are no known related parties or related party relationships and transactions of which we are aware.

Other

16. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
17. We have a process to track the status of audit findings and recommendations.

18. 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.
19. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
20. 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.
21. 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.
22. 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. Compiled TIF financial statements
 - d. Compiled regulatory reports
 - e. Maintenance of capital asset records
 - f. Accounting assistance

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
23. The City of Stoughton 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.
24. The City of Stoughton has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
25. There are no component units that should be disclosed in the financial statements. There are no joint ventures with an equity interest, and we have properly disclosed all other joint ventures and other related organizations.
26. The financial statements properly classify all funds and activities.

40. We agree with the restatement presented in the current year's financial statements.
41. 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.
42. 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.

Sincerely,

City of Stoughton

Signed:



Signed:

