

Reporting and insights from 2019 audit:

City of Janesville

June 10, 2020



Executive summary

We have completed our audit of the financial statements of the City of Janesville for the year ended December 31, 2019, and have issued our report thereon dated June 10, 2020. This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of the City's operating environment and our risk assessment procedures. We strive to provide you clear, concise communication throughout the audit process and of the final results of our audit.

Additionally, we have included information on key risk areas the City of Janesville should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

If you have questions at any point, please connect with us:

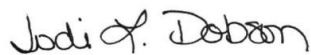
- Amanda Blomberg, Firm Director: Amanda.Blomberg@bakertilly.com or +1 (608) 240 2386
- Jodi Dobson, Partner: Jodi.Dobson@bakertilly.com or +1 (608) 240 2469

Sincerely,

Baker Tilly Virchow Krause, LLP



Amanda Blomberg, CPA



Jodi Dobson, CPA

Table of contents

Executive summary.....	2
Audit objectives	5
Our responsibilities	5
Management's responsibilities	6
Audit status.....	8
Significant changes to the audit plan.....	8
Audit approach and results	10
Planned scope and timing	10
Key areas of focus and significant findings	11
Internal control matters	12
Required communications	13
Accounting changes relevant to City of Janesville.....	17
Trending challenges for organizations	20
2020 strategic risks for boards	20
Cybersecurity.....	20
Data privacy.....	21
The talent problem.....	21
Innovation	22
Public sector executive recruitment.....	22
Customer experience	23
Operational and organizational sustainability.....	23
COVID-19 Risks and ongoing response	24
Appendix A: Client service team	25
Appendix B: Management representation letter	27
Appendix C: Audit results	37

THIS COMMUNICATION IS INTENDED SOLELY FOR THE INFORMATION AND USE OF THOSE CHARGED WITH GOVERNANCE, AND, IF APPROPRIATE, MANAGEMENT, AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.

Audit objectives



Audit objectives

Our responsibilities




As your independent auditor, our responsibilities include:

- Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance.
- Assessing the risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of the City's internal control over financial reporting.
- Performing appropriate procedures based upon our risk assessment.
- Evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management.
- Forming and expressing an opinion based on our audit about whether the financial statements prepared by management, with the oversight of those charged with governance:
 - Are free from material misstatement
 - Present fairly, in all material respects, and in accordance with accounting principles generally accepted in the United States of America
- Performing tests related to compliance with certain provisions of laws, regulations, contracts and grants, as required by *Government Auditing Standards*
- Considering internal control over compliance with requirements that could have a direct and material effect on major federal and major state programs to design tests of both controls and compliance with identified requirements
- Forming and expressing an opinion based on our audit in accordance with OMB's *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines* about the City's compliance with requirements described in the *OMB Compliance Supplement* and *State Single Audit Guidelines* that could have a direct and material effect on each of its major federal and state programs.

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of those charged with governance, including:

- Qualitative aspects of the City's accounting practice including policies, accounting estimates and financial statement disclosures
- Significant difficulties encountered
- Disagreements with management
- Corrected and uncorrected misstatements
- Internal control matters
- Significant estimates
- Other findings or issues arising from the audit

Management's responsibilities

Management	Auditor
 <p>Prepare and fairly present the financial statements</p>	<p>Our audit does not relieve management or those charged with governance of their responsibilities</p>
 <p>Establish and maintain effective internal control over financial reporting and compliance with laws, regulations, contracts and grants</p> <p>Compliance with the types of requirements described in the <i>OMB Compliance Supplement</i> and the <i>State Single Audit Guidelines</i></p>	<p>An audit includes consideration of internal control over financial reporting, but not an expression of an opinion on those controls</p> <p>While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on compliance with those requirements.</p>
 <p>Provide us with written representations at the conclusion of the audit</p>	<p>See Appendix B for a copy of management's representations</p>

Audit status



Audit status

Significant changes to the audit plan

There were no significant changes made to either our planned audit strategy or to the significant risks and other areas of emphasis identified during the performance of our risk assessment procedures.

Audit approach and results



Audit approach and results

Planned scope and timing

Audit focus

Based on our understanding of the City and environment in which you operate, we focused our audit on the following key areas:

- Key transaction cycles
- Areas with significant estimates
- Implementation of new accounting standards

Our areas of audit focus were informed by, among other things, our assessment of materiality. Materiality in the context of our audit was determined based on specific qualitative and quantitative factors combined with our expectations about the City's current year results.

Implementation of GASB No. 84 reporting fiduciary activities

During the current year, your government implemented GASB Statement No. 84 – *Fiduciary Activities*. This standard was issued to provide a clear foundation and reduce inconsistencies in reporting of fiduciary activities. Implementation of this standard required the evaluation of various activities and application of specific criteria to determine the fiduciary activities that required reporting. As a result of this standard you will note the following changes in your financial statements from prior years:

- Reclassification of agency activities as custodial funds
- Change in the activity that is reported through the tax collection custodial fund
- Recognition of a liability to the beneficiaries in each 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
- Additional footnote disclosures

Implementation of GASB No. 88 certain disclosures related to debt, including direct borrowings and direct placements

During the current year, your government implemented GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard was issued to provide essential information related to debt disclosures that may be relevant to the City including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The City's footnotes have been updated accordingly.

Key areas of focus and significant findings

Significant risks of material misstatement

A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s professional judgment, requires special audit consideration. Within our audit, we focused on the following areas below.

Significant risk areas	Testing approach	Conclusion
Management override of controls	Incorporate unpredictability into audit procedures, emphasize professional skepticism and utilize audit team with industry expertise	Procedures identified provided sufficient evidence for our audit opinion

Other key areas of emphasis

We also focused on other areas that did not meet the definition of a significant risk, but were determined to require specific awareness and a unique audit response.

Other key areas of emphasis		
Cash and investments	Revenues and receivables	General disbursements
Payroll	Pension and OPEB liabilities	Long-term debt
Capital assets including infrastructure	Net position calculations	Financial reporting and required disclosures

Internal control matters

We considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements. We are not expressing an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 identified the following deficiency as a material weakness:

- **Internal Control Over Financial Reporting**

At this time, the City does not have internal controls in place to achieve adequate segregation of duties relative to the financial reporting process. Specifically, year-end audited financial statements and year-end conversion journal entries that are prepared by City personnel were not reviewed by someone other than the preparer. As a result, there is a material weakness related to the City's internal control environment regarding year-end financial reporting.

Required communications

Qualitative aspect of accounting practices

- Accounting policies: Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by City are described in Note I to the financial statements. As described in Note I, the City changed accounting policies related to fiduciary activities of all state and local governments by adopting GASB No. 84 – *Fiduciary Activities* in January 2019. The City also changed accounting policies related to debt obligations of governments, including direct borrowings and direct placements by adopting GASB No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in January 2019. We noted no transactions entered into by the City during the year for which accounting policies are controversial or for which there is a lack of authoritative guidance or consensus or diversity in practice.
- Accounting estimates: Accounting estimates, including fair value 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, the degree of subjectivity involved in their development and because of the possibility that future events affecting them may differ significantly from those expected. The following estimates are of most significance to the financial statements:

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Net pension liability and related deferrals	Evaluation of information provided by the Wisconsin Retirement System	Reasonable in relation to the financial statements as a whole
Self-insurance claims	Historical claims analysis and analysis of the claims lag information	Reasonable in relation to the financial statements as a whole
Allowance for doubtful accounts	Evaluation of historical revenues and loss levels with the analysis on collectability of individual amounts	Reasonable in relation to the financial statements as a whole
Net/Total OPEB liability and related deferrals	Key assumptions set by management with the assistance of a third party actuary	Reasonable in relation to the financial statements as a whole
Depreciation	Evaluate estimated useful life of the asset and original acquisition value	Reasonable in relation to the financial statements as a whole

There have been no significant changes made by management to either the processes used to develop the particularly sensitive accounting estimates, or to the significant assumptions used to develop the estimates, noted above.

- Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.

Significant unusual transactions

There have been no significant transactions that are outside the normal course of business for the City or that otherwise appear to be unusual due to their timing, size or nature.

Other information in documents containing audited financial statements

Official Statements

The City's audited financial statements are "general purpose" financial statements. General purpose financial statements consist of the basic financial statements that can be used by a broad group of people for a broad range of activities. Once we have issued our audit report, we have no further obligation to update our report for events occurring subsequent to the date of our report. The City can use the audited financial statements in other client prepare documents, such as official statements related to the issuance of debt, without our acknowledgement. Unless we have been engaged to perform services in connection with any subsequent transaction requiring the inclusion of our audit report, as well as to issue an auditor's acknowledgment letter, we have neither read the document nor performed subsequent event procedures in order to determine whether or not our report remains appropriate.

Difficulties encountered during the audit

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

Disagreements with management

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.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing or accounting matters.

Written communications between management and Baker Tilly

The Appendix includes copies of other material written communications, including a copy of draft of the management representation letter.

Uncorrected misstatements and corrected 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. There were no misstatements identified.

Compliance with laws and regulations

We did not identify any non-compliance with laws and regulations during our audit.

Fraud

We did not identify any known or suspected fraud during our audit.

Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of the City's ability to continue as a going concern for a reasonable period of time but no less than 12 months from the date the financial statements are issued or available to be issued, including the effects on the financial statements and the adequacy of the related disclosures, and the effects on the auditor's report. No such matters or conditions have come to our attention during our engagement.

Independence

We are not aware of any relationships between Baker Tilly and the City that, in our professional judgment, may reasonably be thought to bear on our independence.

Related parties

We did not have any significant findings or issues arise during the audit in connection with the City's related parties.

Other audit findings or issues

We encountered no other audit findings or issues that require communication at this time.

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

Other matters

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.

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.

An aerial photograph of a winding asphalt road with white dashed lane markings, curving through a dense green forest. A small stream is visible in the upper right corner of the image.

Accounting changes relevant to City of Janesville

Accounting changes relevant to City of Janesville

Future accounting standards updates

GASB Statement Number	Description	Potentially Impacts you	Effective Date
87	Leases	✓	12/31/22*
91	Conduit Debt	✓	12/31/22*
92	Omnibus 2020	✓	12/31/22*
93	Replacement of Interfund Bank Offered Rates	✓	12/31/22*
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	✓	12/31/23

*The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, Postponement of Effective Dates of Certain Authoritative Guidance, with the exception of Statement No. 87 which was postponed by one and a half years. The effective date reflected above is the required revised implementation date.

Further information on upcoming [GASB pronouncements](#)

Preparing for the new lease standard

GASB's new single model for lease accounting will be effective for the city's year ending December 31, 2020, however, GASB No. 95 allows an extension until December 31, 2022. This standard will require governments to identify and evaluate contracts that convey control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Contracts meeting the criteria for control, term and other items within the standard will result in recognizing a right to use asset and lease liability or a receivable and deferred inflow of resources.

We recommend the City review this standard and start planning now as to how this will affect your financial reporting. We recommend that you begin by completing an inventory of all contracts that might meet the definition of a lease. 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.

Learn more about [GASB 87](#).

Planning for the new conduit debt reporting

Conduit debt includes arrangements where there are three separate parties involved including a third party that is obligated for payment, a debt holder or lender and an issuing party which is often a government. This standard provides additional criteria for identifying and classifying conduit debt with the intent of providing consistency in how the debt is recorded and reported in governmental financial statements. The City should identify any existing debt arrangements involving third party obligors and evaluate how those arrangements will be reported under the new standard in order to determine the potential impact of this standard on future financial reporting.

A photograph of the Aurora Borealis (Northern Lights) in shades of green and teal, dancing across a dark night sky filled with stars. The lights are reflected in a calm body of water in the foreground, with dark silhouettes of mountains or hills in the distance.

Trending challenges for organizations

Trending challenges for organizations

Management and the governing body of the City must keep the future in mind as they evaluate strategies to achieve future growth. Keeping a balance between risk and sustainability is key, and organizations need to think beyond their immediate needs to their long term goals. Economic uncertainty, coupled with key risk areas and fast paced technology change, make strategic planning complex. Begin the discussion with your management team to find your path to your future.

2020 strategic risks for boards



Evaluating and mitigating the greatest risks

Public sector organizations face a multitude of internal and external risks in an evolving landscape. Risks can stem from strategy, finances, legal situations, operations, regulatory compliance, information technology, economic environment, and/or fraud, waste and abuse.

By employing a risk assessment, areas with the greatest needs and highest risks are evaluated. Then a risk mitigation plan can be developed and deployed.

Learn about [risk assessment](#) types, tools and strategies.

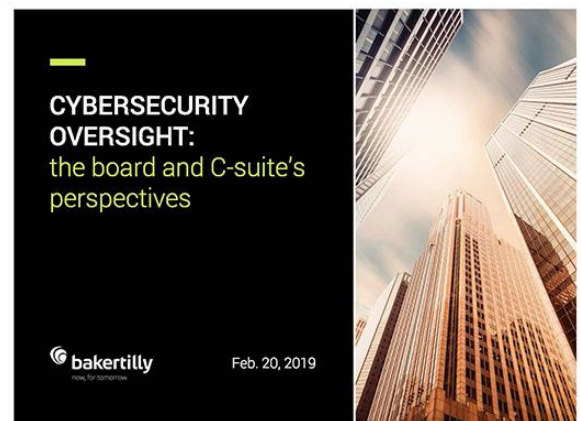
Cybersecurity

Operational reporting on cybersecurity effectiveness

As boards engage management in cybersecurity risk discussions, directors should expect management to produce reports on the effectiveness of the organization's cybersecurity-risk management program. Management can (and should) collect and analyze relevant performance measures and metrics to determine if cybersecurity safeguards and controls are operating as intended, and whether any corrective action should be taken to strengthen management's risk-mitigation approaches. While not an exhaustive list, some key processes on which management should report include these:

- Incident management
- Risk management and governance
- Independent assurance on the cybersecurity program

[Learn more](#) about cybersecurity risk management.



[WATCH: On demand webinar about board governance over cybersecurity.](#)

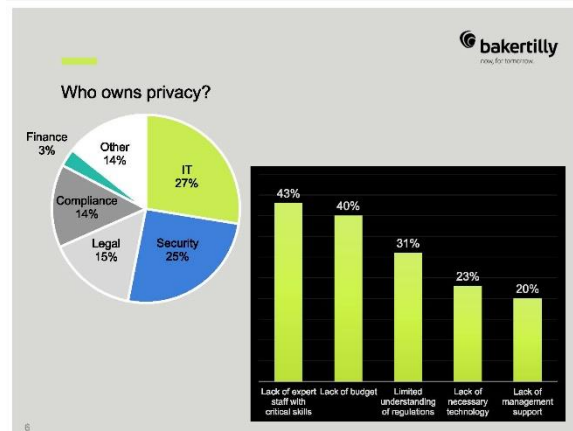
Data privacy

Elevating privacy risks to the forefront of board agendas

Organizations around the world are still scrambling to comply with the General Data Protection Regulation in the European Union, which went into effect in May 2018. While the data privacy regulatory environment changes rapidly, organizations can take proactive steps to ensure that they stay informed of the existing regulations and of those developing on the near horizon.

Adequate oversight remains a key part of staying on top of data privacy developments. Some regulations specify oversight requirements, and can depend on the type of the organization, the quantity and type of personal data processed, and the locations where operations take place. In many cases, a data protection officer (DPO) must lead the effort. Since the DPO is responsible for overseeing practices related to data protection strategy and implementation, having one in place early on will help ensure that the privacy program is comprehensive and consistent.

Learn more about [data privacy risk management](#).



[WATCH: On demand webinar about a risk-based approach to oversight, compliance and management of privacy](#)

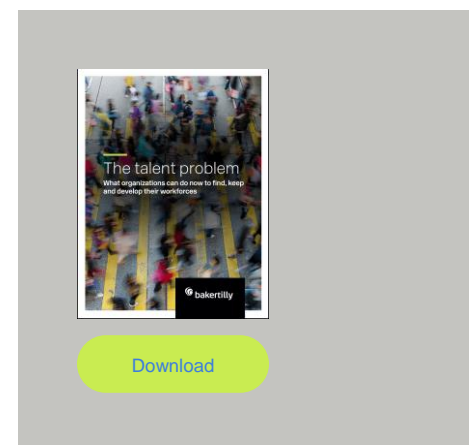
The talent problem

Establishing a lifeline for your shifting workforce

Employee recruitment and retention challenges are an all too common struggle in the public sector:

- Aging workers with institutional knowledge retire
- High demand for small qualified candidate pool
- Perception of geographic disadvantages
- Wage/benefit competition with private sector
- Lean operations exclude investments in recruitment, on-the-job training and technology
- Unclear growth and career advancement tracks

Sustainable organizations must have a robust workforce development and succession planning program. Learn how to get started and incorporate a workforce/succession planning program with existing operational practices.



Innovation

Anticipating disruptive innovation and digital transformation

To stay competitive and relevant in a rapidly changing business landscape, organizations in every industry must navigate an increasingly disruptive, technology-enabled environment. Companies that do not address and embrace new and emerging technologies will be less competitive or may even face obsolescence.

Given these challenges to companies, what does innovation mean in this era of digital transformation? Innovation now involves finding the right problems worth solving; building new offerings, business models, and experiences; and generating value at scale for customers.

Furthermore, the rapid digital transformation of advanced technologies such as blockchain, robotic process automation (RPA), and artificial intelligence (AI) now portend similar effects in industries from financial services and healthcare to communications and manufacturing. Boards must become

knowledgeable about these digital disruption trends in order to be able to conduct meaningful oversight that management can use successfully as the company embraces new technologies.

Anticipating Disruptive Innovation and Digital Transformation

To stay competitive and relevant in a rapidly changing business landscape, organizations in every industry must navigate an increasingly disruptive, technology-enabled environment.

[Read the blog post.](#)

Learn more about [innovation opportunities](#).

Public sector executive recruitment

Navigating recruitments and smart hiring

Competing for top executive talent in the public sector space takes industry knowledge, familiarity with the general applicant pool and experience navigating recruitments. Search consultants draw upon their understanding of organizational management and human resources to serve as a successful agent for government entities. In turn, public sector organizations can adopt a foundational understanding about search firms to ensure optimal collaboration on hiring opportunities.

[Read the three part series](#) to learn what your entity should be thinking about and how Baker Tilly can help.

Three part series on public sector executive recruitment

Navigate the changing workforce landscape with confidence, read the executive recruitment series.

1. [Five myths about search firms](#)
2. [Recruiting for difficult positions](#)
3. [Hiring recommendations for government entities](#)

Customer experience

Finding your edge in a competitive market

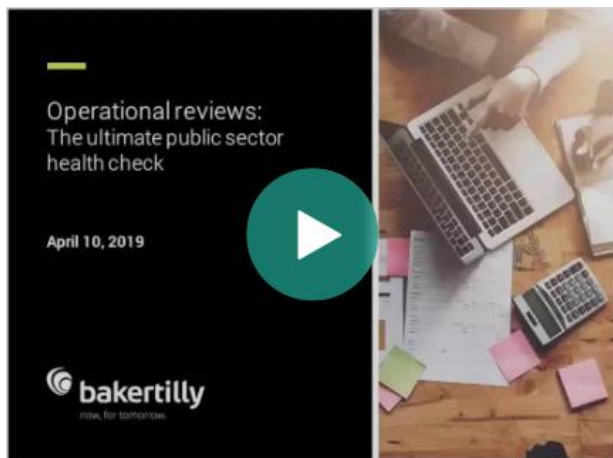
All industries are facing an increasingly competitive marketplace due to more connected consumers, partners and vendors. Where a company may have had a geographic advantage in the past, they now need to be able to compete against non-local organizations.

One of the key factors in maintaining your place in the market is ensuring a positive, fast and easy customer experience. Whether this means enhancing your customer support services through online chat bots or developing a mobile app to allow your customer access to their information around the clock, your organization needs to take your customer experience strategy seriously. Management and board members should understand where your experience is currently and what strategies you are evaluating to enhance it.

Learn more about [why your customer experience is so important](#).

Operational and organizational sustainability

Aligning resources with strategy



As new demands confront the public sector industry, it's easy to solve an immediate problem instead of pausing to take a holistic view. Rippling inefficiencies, increasing financial pressures, taxing staff resources and plummeting constituent satisfaction can pile atop organizations already facing pressure to improve efficiency, effectiveness, relevance and financial viability.

An operational review follows a systematic, strategic approach to understanding an entity's operations and performance. Opportunities to improve processes, bolster internal controls and reduce costs are uncovered in order to realign organizational resources and strategic objectives.

Learn invaluable methods for [executing an operational review](#) while maintaining day-to-day operations.

COVID-19 Risks and ongoing response

Staying nimble and resilient during unprecedented disruption

COVID-19 has challenged all organizations and the effects continue to unfold. It is critical that management and governing bodies stay nimble to respond to direct and indirect effects of this disruption on operations, cash flow, and people. Some best practices to consider include:

- Establish mechanisms to track COVID-19 related expenses, lost revenues or delayed revenues
- Monitor cash flow projections and seek short term liquidity help
- Create a policy and forms for compliance with Family First Coronavirus Response Act
- Compare anticipated results to bond covenants and track any continuing disclosure items
- Re-evaluate TIF projections with revised development scenarios
- Develop a strategy for leading your community through the crisis



Learn about public sector [Coronavirus resources](#), including the latest news on business continuity and cash flow management, Federal stimulus and tax developments, and more.

Appendix A: Client service team



Client service team



Amanda Blomberg, CPA

Firm Director

10 Terrace Ct
Madison, WI 53707
United States

T +1 (608) 240 2386

amanda.blomberg@bakertilly.com



Jodi Dobson, CPA

Partner

10 Terrace Ct
Madison, WI 53707
United States

T +1 (608) 240 2469

jodi.dobson@bakertilly.com



Cameron Sawyer, CPA

Senior Associate

10 Terrace Ct
Madison, WI 53707
United States

T +1 (608) 240 2579

cameron.sawyer@bakertilly.com



Megan Cahill, CPA

Senior Associate

10 Terrace Ct
Madison, WI 53707
United States

T +1 (608) 240 6774

megan.cahill@bakertilly.com

A photograph of two men in an office. The man on the left is seen from the back, wearing a white shirt and glasses. The man on the right is smiling and wearing a light blue shirt. They are shaking hands over a desk. On the desk, there is a laptop, a small potted plant, a white mug, and some papers. A window is visible in the background.

**Appendix B: Management
representation letter**



CITY OF JANESVILLE

Wisconsin's Park Place

June 10, 2020

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 Janesville as of December 31, 2019 and for the 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 Janesville 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 and include all properly classified funds and other financial information of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

CITY HALL • 18 N. JACKSON ST., P.O. BOX 5005 • JANESVILLE, WI 53547-5005 • (608) 755-3000 • FAX: (608)755-3196



facebook.com/cityofjanesville



ci.janesville.wi.us



linkedin.com/company/cityofjanesvillewi



twitter.com/City_Janesville

- 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 financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
- 7) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
- 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 and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) 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.

- 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) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
- 21) The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 22) 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.

- 23) 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.
- 24) The City of Janesville 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 Janesville 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 all component units. There are no joint ventures with an equity interest or other related organization requiring disclosure.
- 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 Janesville 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) The entity meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
- 38) We believe that the estimate made for the pollution remediation liability is in accordance with GASB 49 and reflects all known available facts at the time it was recorded.
- 39) Tax-exempt bonds issued have retained their tax-exempt status.
- 40) We have appropriately disclosed the City of Janesville'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.
- 41) 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.
- 42) 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.

- 43) We assume responsibility for, and agree with, the findings of specialists in evaluating the OPEB and IBNR liabilities 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.
- 44) 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.
- 45) We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.
- 46) We have implemented GASB Statement No. 84, *Fiduciary Activities*, and believe that all activities that meet the criteria for presentation as fiduciary activities have been identified and presented as such. In addition, we believe that all required disclosures and other accounting considerations have been identified and properly classified in the financial statements in compliance with the Standard.
- 47) We have implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, and believe that all direct borrowings, direct placements, lines of credit or debt default clauses have been identified and properly disclosed in the financial statements in compliance with the Standard.
- 48) With respect to federal and state award programs:
 - a) We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *State Single Audit Guidelines*, including requirements relating to preparation of the schedule of expenditures of federal and state awards (SEFSA).
 - b) We acknowledge our responsibility for presenting the SEFSA in accordance with the requirements of the Uniform Guidance and the State Single Audit Guidelines, and we believe the SEFSA, including its form and content, is fairly presented in accordance with the Uniform Guidance and the *State Single Audit Guidelines*. The methods of measurement and presentation of the SEFSA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFSA.
 - c) If the SEFSA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFSA no later than the date we issue the SEFSA and the auditors' report thereon.

- d) We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and the *State Single Audit Guidelines* and included in the SEFSA, expenditures made during the audit period for all awards provided by federal 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 for federal and state programs that provide reasonable assurance that we are administering our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relevant to the programs and related activities.
- 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 including when applicable, those set forth in the OMB Compliance Supplement and the State Single Audit Guidelines, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance 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 agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.

- 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 the compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
 - 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) We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
 - 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 or material weaknesses in internal control over compliance, 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 the Uniform Guidance 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 the Uniform Guidance.
 - w) We are responsible for preparing and implementing a corrective action plan for each audit finding.
 - x) We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.
- 49) We are responsible for the electronic submission of required annual financial data to HUD's Real Estate Assessment Center (REAC) and for ensuring that it is complete, accurate, and timely filed, in accordance with our regulatory and contractual obligations to HUD.

50) We have disclosed to you all information of which we are aware that may affect the completeness and accuracy of the electronic submission, and we have disclosed to you all communications from regulatory agencies affecting the electronic submission.

Sincerely,

City of Janesville

Signed: 
Mark Freitag, City Manager

Signed: 
Maxwell Gagin, Finance Director

Signed: 
Mandy Price, Accounting Manager

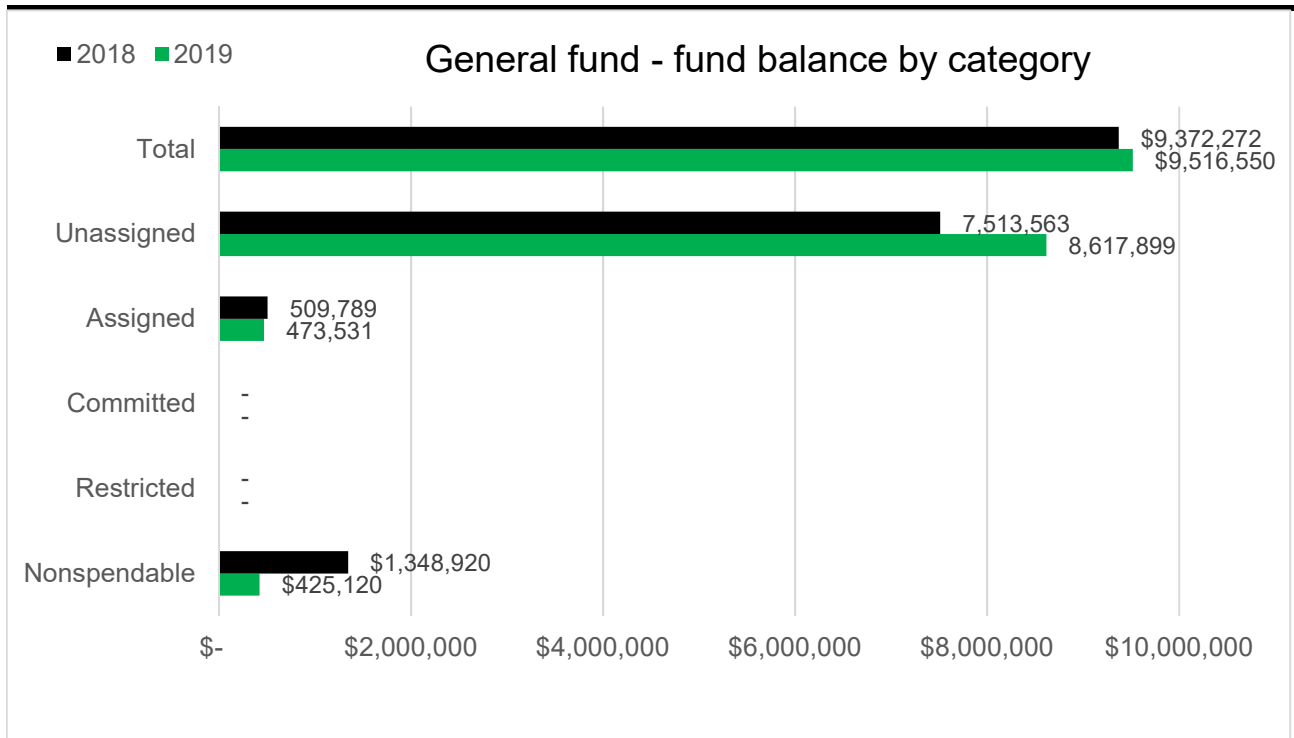
Appendix C: Audit results





City of Janesville

General fund results



Summarized income statement

	Actual	Final budget	Variance
Revenues and other financing sources	\$ 51,439,893	\$ 50,832,592	\$ 607,301
Expenditures and other financing uses	51,295,615	51,913,756	618,141
Net change in fund balance	<u>\$ 144,278</u>	<u>\$ (1,081,164)</u>	<u>\$ 1,225,442</u>

Fund balance category definitions

Nonspendable - amounts cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained in tact.

Restricted - amounts that can be spent only for the specific purposes stipulated by an external source.

Committed - amounts constrained for specific purposes that are internally imposed through formal action of the governing body.

Assigned - spendable amounts that are intended to be used for specific purposes that are not considered restricted or committed.

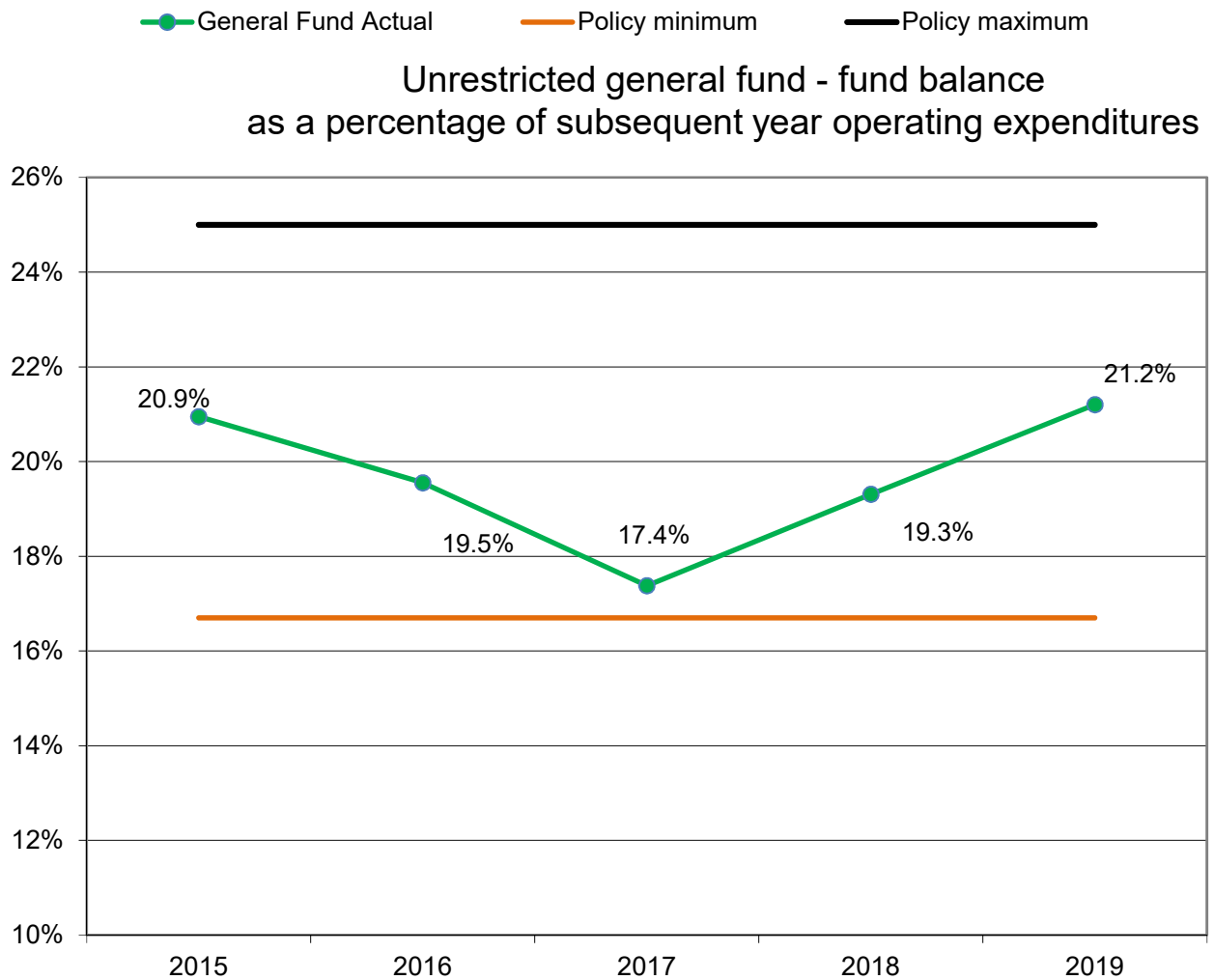
Unassigned - residual amounts that have not been classified within other categories above.

City of Janesville

General fund - fund balance trends

Fund balance policy:

16.70-25% of subsequent year general fund expenditures



Other reference values

GFOA recommends a minimum of no less than 2 months (16.7%) of general fund expenditures.

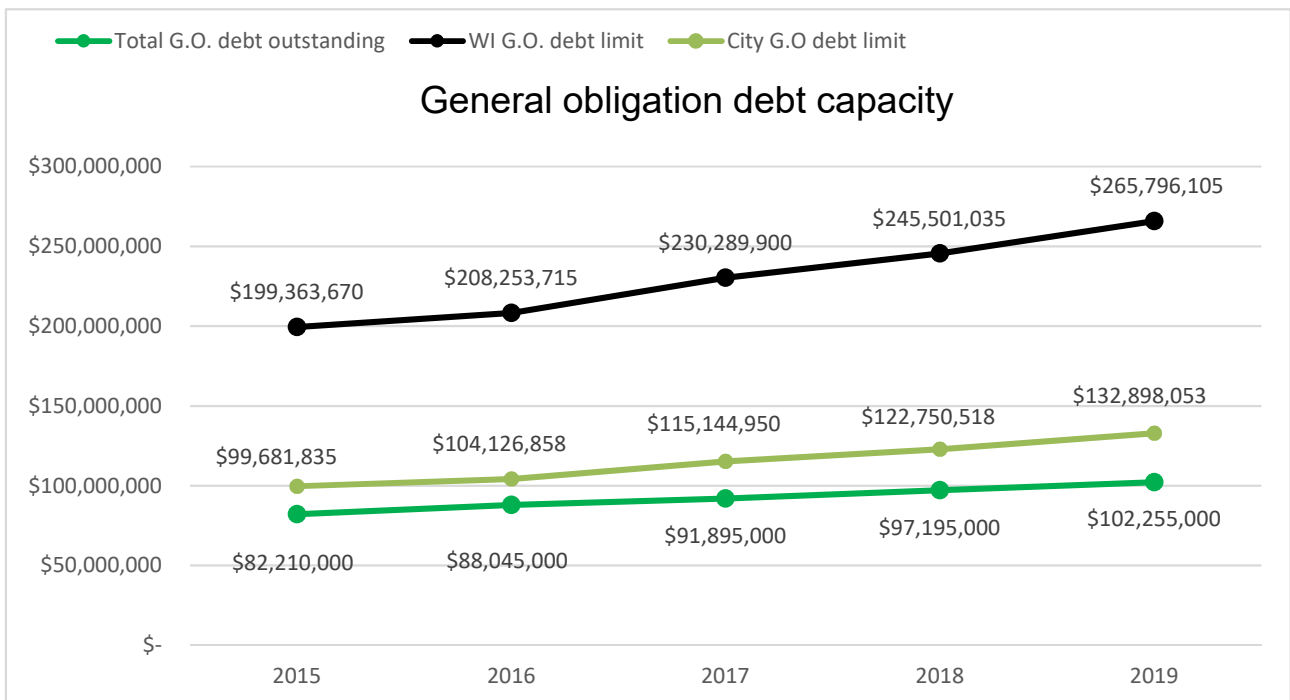
City of Janesville

General obligation debt

Debt management policy:

The City's debt management policy limits the amount of outstanding general obligation debt to 2.5% of the City's equalized value.

Actual percentage of WI G.O debt limit at 12/31/19: **38%**



Total debt outstanding by type at 12/31/2019

	General obligation	Revenue debt	Total
City	\$ 72,334,000	\$ -	\$ 72,334,000
Utility	29,921,000	18,768,104	48,689,104
Total	\$ 102,255,000	\$ 18,768,104	\$ 121,023,104

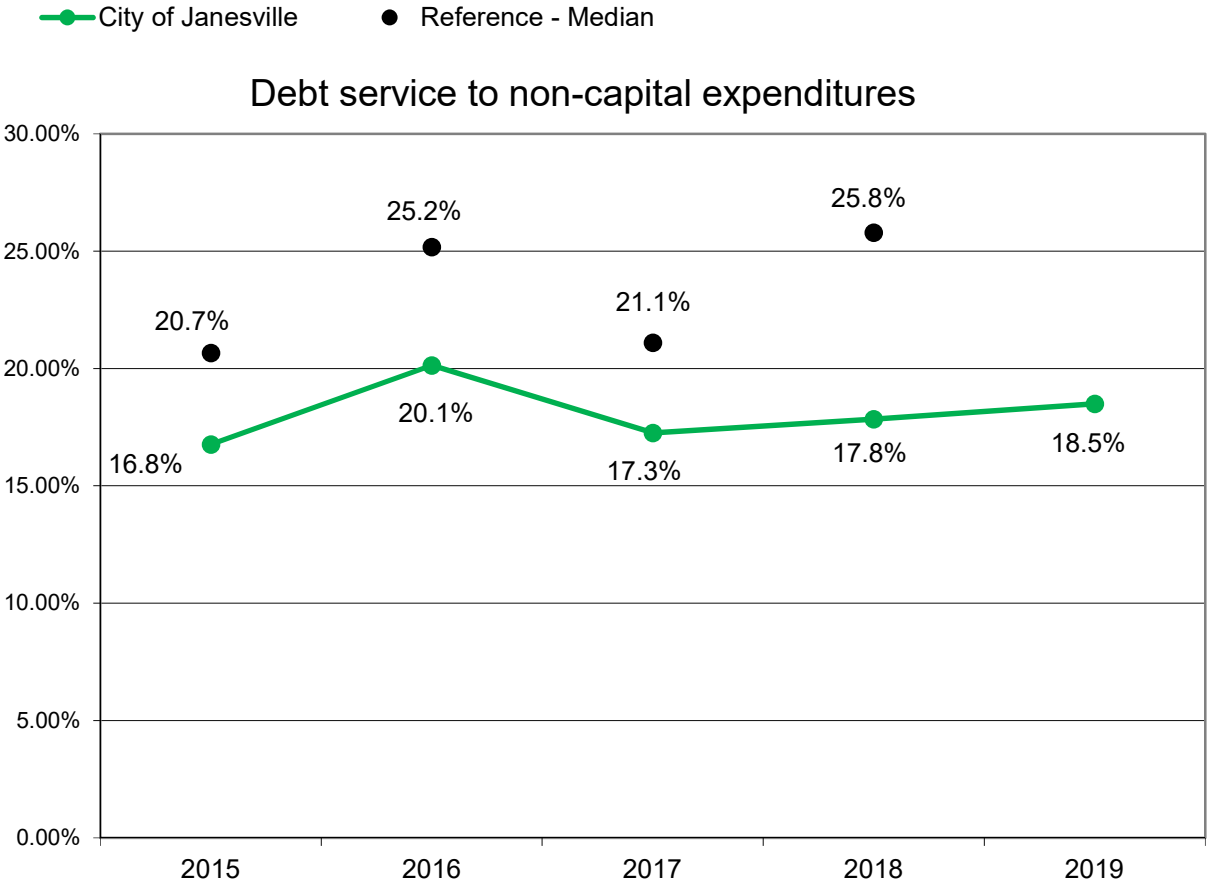
Comparative metrics available online through the Wisconsin Policy Forum.

<https://wispolicyforum.org/research/municipal-datatool-examining-and-comparing-wisconsin-cities-and-villages/>

Select "Debt" -- options for custom comparisons or comparisons by county

City of Janesville

Governmental funds - debt service



Current and prior year data

	<u>2019</u>	<u>2018</u>
Principal	\$ 13,027,000	\$ 12,126,000
Interest	1,607,135	1,385,220
Total	<u>\$ 11,419,865</u>	<u>\$ 10,740,780</u>
Non-capital expenditures	<u>\$ 79,092,307</u>	<u>\$ 75,714,138</u>

Other reference values

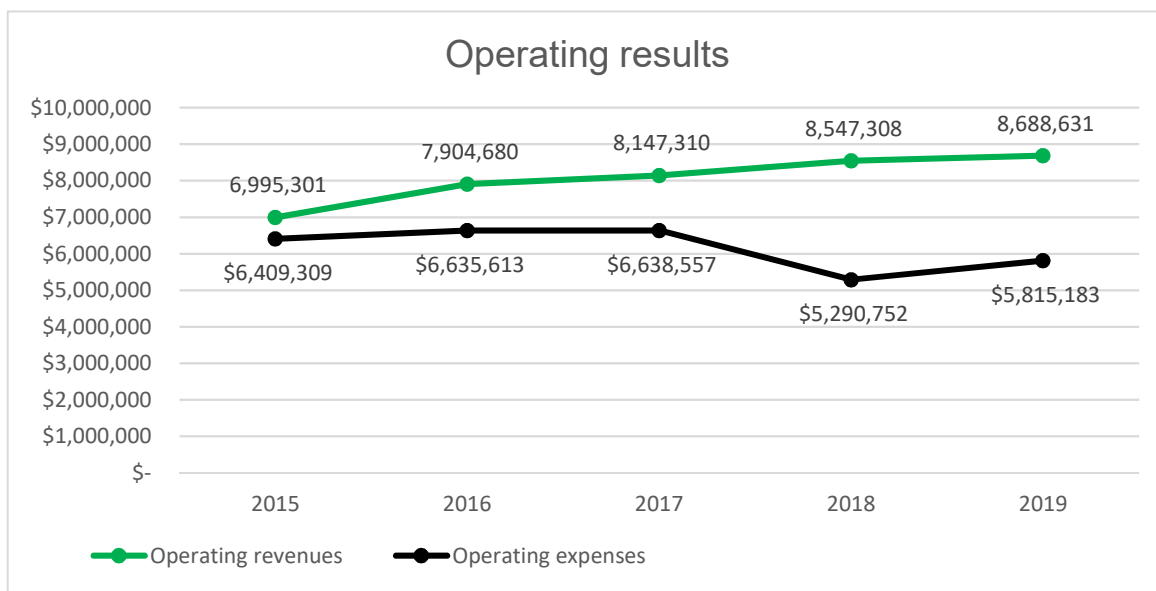
Median reference value generated from 2015 - 2018 Baker Tilly municipal client data for population ranges from 30,000 to 150,000.



Janesville Water Utility

Water Utility Results

	<u>Current Year</u>	<u>Prior Year</u>
Actual Rate of Return	3.75%	4.74%
Authorized Rate of Return	5.50%	5.50%



Unrestricted Reserves

	<u>2015</u>		<u>2016</u>		<u>2017</u>		<u>2018</u>		<u>2019</u>
Year end balance	\$ -		\$ -		\$ -		\$ -		\$ -
Months on hand	0.00		0.00		0.00		0.00		0.00

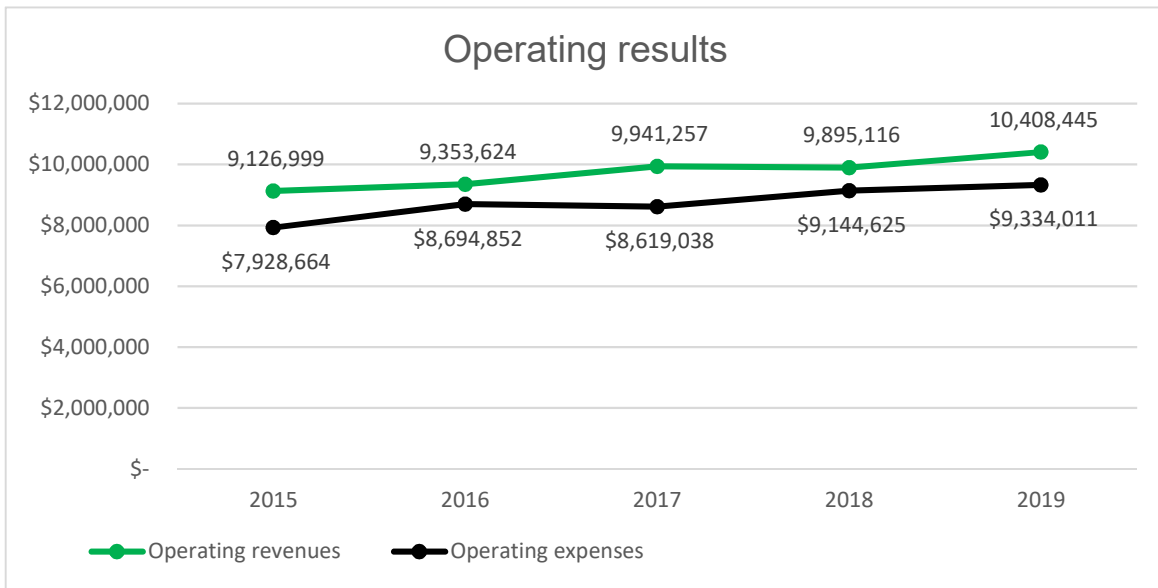
Investment in Capital





Janesville Wastewater Utility

Sewer Utility Results



Unrestricted Reserves

	2015	2016	2017	2018	2019
Year end balance	\$ 1,766,506	\$ 1,564,222	\$ 1,535,487	\$ 2,296,423	\$ 814,758
Months on hand	2.32	2.01	1.85	2.78	0.94

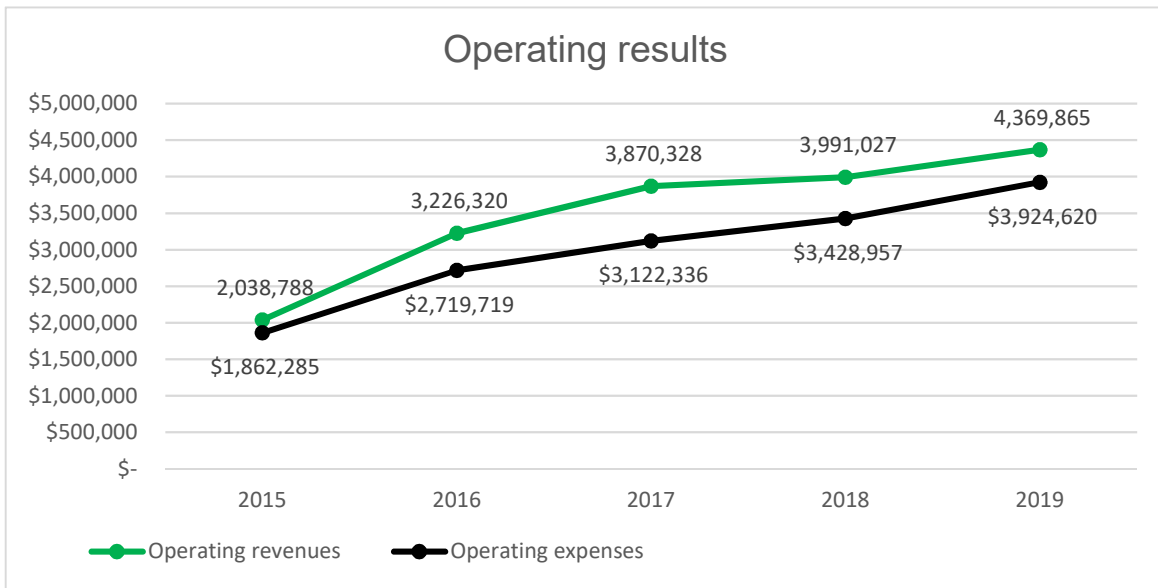
Investment in Capital





Janesville Stormwater Utility

Stormwater Utility Results



Unrestricted Reserves

	2015	2016	2017	2018	2019
Year end balance	\$ 291,669	\$ 224,103	\$ 456,739	\$ 1,030,674	\$ 387,754
Months on hand	1.72	0.83	1.42	3.10	1.06

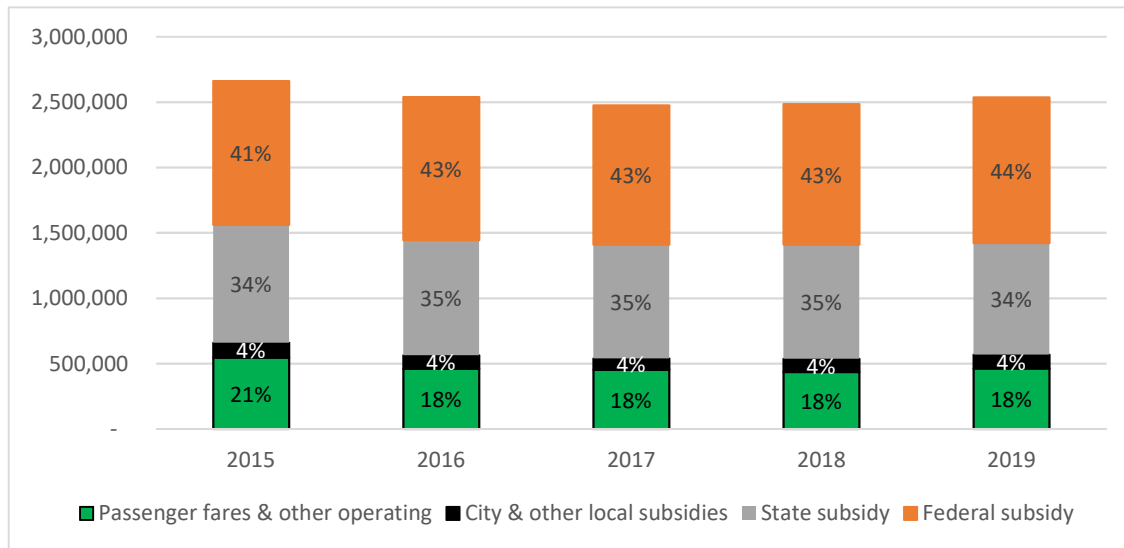
Investment in Capital



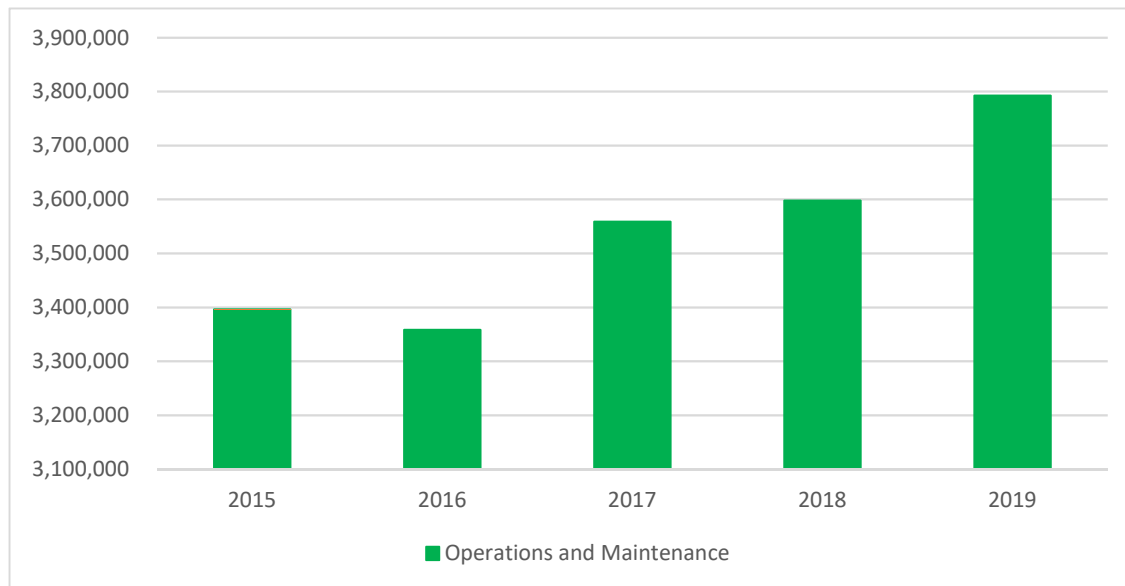


Janesville Transit Transit System Results

Operating Revenues



Operating Expenses



	Revenues	Expenses	Excess/ (Deficiency)
Current Year	\$ 2,534,622	\$ 3,792,825	\$ (1,258,203)
Prior Year	\$ 2,484,792	\$ 3,597,791	\$ (1,112,999)