

To the Mayor and Common Council
City of Lodi
Lodi, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lodi as of and for the year ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated information in our engagement letter to you as well as verbally during our initial planning meetings. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Our audit of the financial statements does not relieve you or management of your responsibilities.

An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining 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. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Any internal control related matters that are required to be communicated under professional standards are included later in this letter.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the schedule of proportionate share of the net pension liability (asset) and employer contributions – Wisconsin Retirement System, schedule of proportionate share of the net other post-employment benefit liability and employer contributions and schedules of budgetary comparison – general fund as indicated in the financial statement's table of contents, which supplement the basic financial statements, was to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance, we did not express an opinion or provide any assurance on the RSI.

We have been engaged to report on combining and individual fund financial statements and budgetary comparison schedules as indicated in the financial statement's table of contents, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, except the budget information, as described by professional standards, was to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information, except the budget information, was fairly stated, in all material respects, in relation to the financial statements as a whole.

The budgetary information included in the supplementary information was not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we did not express an opinion or provide any assurance on it.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Lodi are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of the capital assets is based on industry standards. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension asset, and related deferred outflow and inflows of resources, are based on actuarially determined amounts. We evaluated the key factors and assumptions used to develop the pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net post-employment benefit liability, and related deferred outflows and inflows of resources, are based on actuarially determined amounts. We evaluated the key factors and assumptions used to develop the pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of deposits and investments and the related risks with them in Note 2 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risks associated with the City's cash and investments.

The disclosure of the net pension asset, related deferred outflows and inflows, and the risks associated with them may be found in Note 11 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the City's net pension liability.

The disclosure of the net post-employment benefit liability, related deferred outflows and inflows, and the risks associated with them may be found in Note 12 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the City's other post-employment benefit liability for life insurance.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We proposed adjustments to the City's general ledger of which some were material to the financial statements taken as a whole. These misstatements were detected as a result of audit procedures and were corrected by management. The entries related primarily to adjusting receivables, payables, reclassifying capital assets, and adjusting taxes receivable. A listing of these adjustments is attached.

Disagreements with Management

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

Management Representations

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

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements 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 Lodi as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Lodi'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, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our 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 deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City of Lodi's internal control to be a significant deficiency:

Financial Reporting - One of the components of internal control over financial reporting is that staff of the City be sufficiently knowledgeable to record the entity's financial transactions in accordance with generally accepted accounting principles (GAAP) and to prepare the entity's financial statements including the footnotes in accordance with those principles. The City's staff do not have the training in GAAP to prepare financial statements including the related notes in accordance with GAAP. The City's management does review the financial statements and footnotes and accepts responsibility for them. This matter is common in most small organizations since they do not have the resources to devote to this area of internal control.

Internal Control Over Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Accordingly, we do not express an opinion on compliance.

Other Matters

In addition, we felt the other matters described in the following paragraphs were important to the operation of the City of Lodi. These matters may involve internal controls, general operations, recommendations for the adoption of policies and other such items that we feel will enhance the City of Lodi.

Prior Year Observations

Unrecorded Cash Accounts (per 12/31/10 letter)

The Library holds separate cash and investment accounts. The activity for these unrecorded accounts was not in the City's accounting records. Some disbursements for costs of the Library were made from these separate accounts maintained by the Library. State statutes require all disbursements of City funds, including those controlled by separate boards, to be made by check issued by the City Clerk. During the audit, adjustments were made to include the separate library account activity in the City's financial statements. We recommend the City work with the Library Director to record the activity of these accounts in the City's general ledger.

Status (12/31/20)

This remains an issue the board needs to address. During the audit, adjustments were made to include the separate library account activity in the City's financial statements.

Reporting of Funds (per 12/31/17 letter)

The City has various funds that have an immaterial amount of activity or no activity each year. We recommend the City review their funds to determine which ones are appropriate to be reported separately. The number of funds established within the accounting system to collect and maintain data should be driven by the needs of management. The number of funds reported in the external financial report, on the other hand, should be based on the needs of financial statement users, who typically need and desire less detailed data. Accordingly, separate funds within an accounting system often can and should be combined to form a single fund for the purposes of external financial reporting. We recommend that the City develop a policy for determining the requirements for reporting a separate fund in its external financial statements. The national Government Finance Officers Association has a best practice outlining this process and is described at www.gfoa.org/fund-accounting-applications.

Status (12/31/20)

The City has made plans to close and has closed several smaller funds during the fiscal year ended December 31, 2020.

Water Impact Fees (per 12/31/17 letter)

Per the Water Impact Fee agreement, revenues collected by the City as impact fees shall be placed in segregated interest-bearing accounts and shall be accounted for separately from other funds of the City. Separate accounts shall be kept for fees collected from different impact fee zones, where the particular impact fee ordinance provides for differential fees according to zones, and revenues collected in particular zones shall be spent in those zones as appropriate. We recommend the City create and maintain a separate fund for water impact fees to be in compliance with the agreement.

Status (12/31/20)

The City has separated out the collection of impact fees as separate revenues in the financial statements and is now in full compliance with its policy regarding impact fees.

Closing

We thank you for allowing us to be of service to the City of Lodi. We received complete cooperation and appreciate your consideration of our comments and your implementation of suggestions.

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

KerberRose

KerberRose SC
Certified Public Accountants
Shawano, Wisconsin
May 5, 2021