

Reporting and insights from 2021 audit:

Waterford Waterway Management District

September 30, 2021

Executive summary

To the Board of Commissioners of the
Waterford Waterway Management District

We have completed our audit of the financial statements of Waterford Waterway Management District (the District) for the year ended September 30, 2021, and have issued our report thereon dated February 8, 2022. 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 your District's operating environment and our risk assessment procedures. As noted in our discussions with management of the District, this was the 6th year Baker Tilly has been contracted to do your audit. 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 Waterford Waterway Management District 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:

– Paul Frantz, Partner: paul.frantz@bakertilly.com or +1 (414) 777 5506

Sincerely,

Baker Tilly US, LLP

A handwritten signature in black ink, appearing to read "Paul Frantz", with a stylized flourish at the end.

Paul Frantz, CPA, Partner

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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.

Responsibilities



Responsibilities

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 District'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 the Board of Commissioners:
 - 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

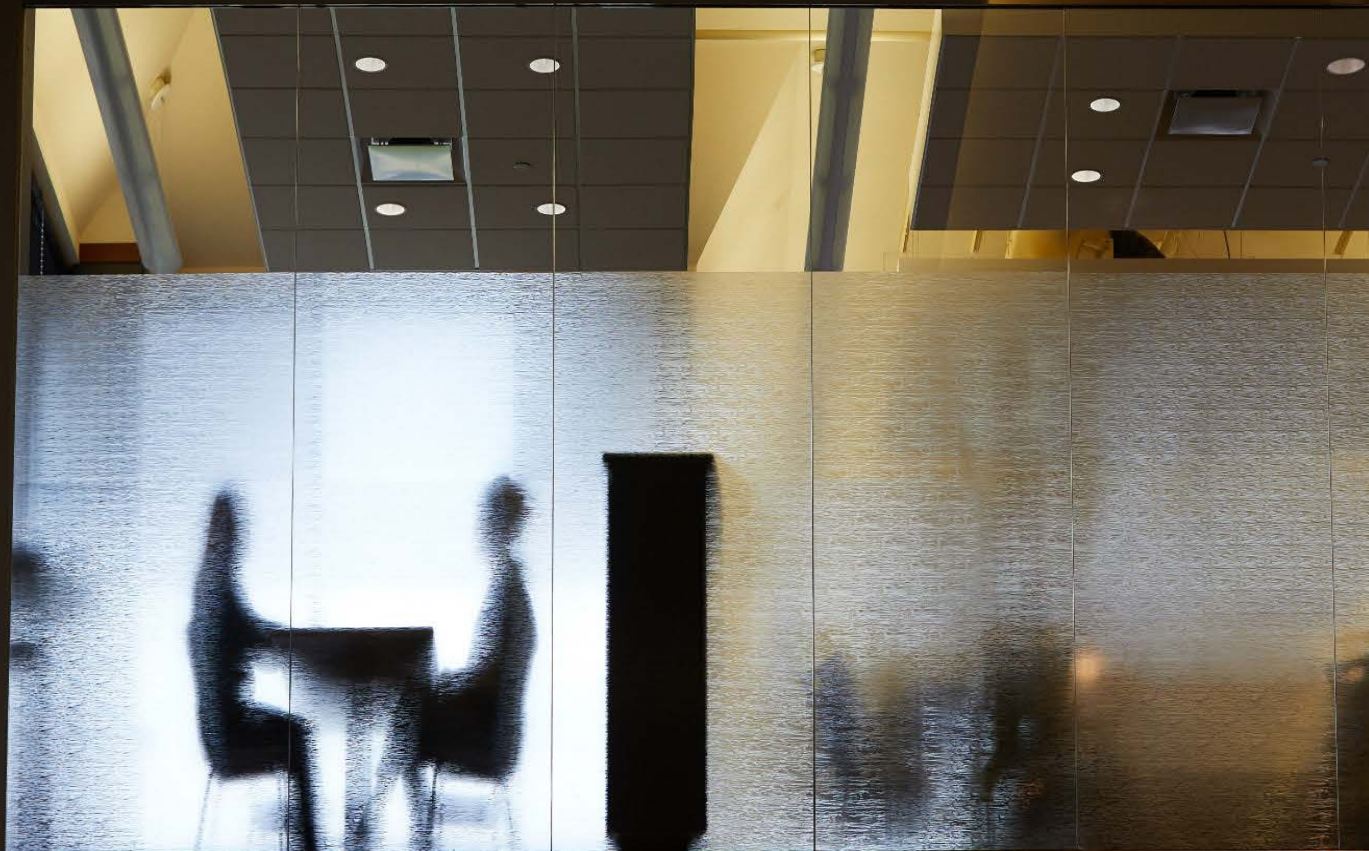
We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of the Board of Commissioners, including:

- Qualitative aspects of the District'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
 Prepare and fairly present the financial statements	Our audit does not relieve management or those charged with governance of their responsibilities
 Establish and maintain effective internal control over financial reporting	An audit includes consideration of internal control over financial reporting, but not an expression of an opinion on those controls
 Provide us with written representations at the conclusion of the audit	See Appendix for a copy of management's representations

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 District and environment in which you operate, we focused our audit on the following key areas:

- Key transaction cycles
- 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 District's current year results.

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
Improper revenue recognition due to fraud	Confirmation or validation of certain revenues supplemented with detailed predictive analytics based on non-financial data and substantive testing of related receivables	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	Testing approach	
Cash and investments	Revenues and receivables	General disbursements
Net position calculations	Financial reporting and required disclosures	Capital Assets

Internal control matters

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

- **Inadequate segregation of duties**

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 your accounting processes would be discovered by your staff in a timely manner.

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

- **Missing key controls**

There are 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

- Persons processing accounts payable and those with access to the system should be separate from those ordering or receiving goods or services.

Controls over financial reporting

- Account reconciliations should be prepared by someone independent of posting transactions to the general ledger.

Controls over Information Technology

- The District's present software system lacks certain security features that, if operated improperly, would not allow for the identification of changes made to financial data after the original entry of such data. This is a control weakness that exists in many database software packages, including Microsoft Office Access, which is the basis for your software. Many of the system users may not possess the technical knowledge to operate the system in a manner that would impair the system's control integrity. However, it is possible that some users may possess the knowledge to circumvent the system's controls. Therefore, we believe that it is reasonably possible that a material error could occur resulting in a misstatement of the financial statements, and your controls would not prevent or detect the error. Accordingly, we are required to communicate this fact to you.

Since the controls listed above or other compensating controls are not currently in place, errors or irregularities could occur as part of the accounting processes that might not be discovered by management or the governing body. Therefore, the absence of these controls is considered to be a material weakness.

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.

- Financial statement close process

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

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

- There is adequate staffing to prepare financial reports throughout the year and at year-end.
- Complete and accurate financial statements, including footnotes, are prepared.
- Financial reports are independently reviewed for completeness and accuracy.

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

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

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 District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing accounting policies was not changed during the 2021 fiscal year. We noted no transactions entered into by the District 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. There were no estimates made affecting the financial statements.
- Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.

Significant difficulties encountered during the audit

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

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

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.

Uncorrected misstatements and corrected misstatements

Professional standards require us to accumulate misstatements identified during the audit, other than those that are clearly trivial and to communicate accumulated misstatements to management. Management is in agreement with the misstatements we have identified, and they have been corrected in the financial statements. In our judgment, none of the misstatements that management has corrected, either individually or in the aggregate, indicate matters that could have had a significant effect on the District's financial reporting process.

Significant unusual transactions

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

Other information in documents containing audited financial statements

Official statements (or other equivalent document which we may not read unless engaged separately)

The District'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 District 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.

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 the management representation letter. This letter follows this required communication.

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 District'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 District 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 District's related parties.

Other matters

We were engaged to report on the supplementary information which accompanies the financial statements. 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.

Nonattest services

The following nonattest services were provided by Baker Tilly:

- Financial statement preparation
- Adjusting journal entries

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

Accounting changes relevant to the Waterford Waterway Management District



Accounting changes relevant to the Waterford Waterway Management District

Future accounting standards update

GASB Statement Number	Description	Potentially Impacts you	Effective Date
87	Leases	✓	9/30/22
91	Conduit Debt	✓	9/30/22
92	Omnibus 2020	✓	9/30/22
93	Replacement of Interfund Bank Offered Rates	✓	9/30/22
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	✓	9/30/23
96	Subscription-Based Information Technology Arrangements	✓	9/30/23
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	✓	9/30/22

*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](#).

Appendix A: Client service team

Client service team



Paul Frantz, CPA

Partner

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United States

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Appendix B: Management representation letter



Waterford Waterway Management District
P.O. Box 416
Waterford, Wisconsin 53185

February 8, 2022

Baker Tilly US, LLP
777 E Wisconsin Ave
32nd Floor
Milwaukee, WI 53202

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audit of the financial statements of the Waterford Waterway Management District as of September 30, 2021 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Waterford Waterway Management District and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
- 2) The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and 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.



- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
- 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.
- 7) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 8) All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
- 9) There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.

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 Board of Commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) We have not completed an 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) The Waterford Waterway Management District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 19) 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.
- 20) 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) Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- 21) 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

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
- 22) The Waterford Waterway Management District 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.
- 23) The Waterford Waterway Management District has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.



Waterford Waterway Management District
P.O. Box 416
Waterford, Wisconsin 53185

- 24) The financial statements properly classify all funds and activities.
- 25) 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.
- 26) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
- 27) We have appropriately disclosed the Waterford Waterway Management District'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.
- 28) 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.

Sincerely,

Waterford Waterway Management District

Signed: _____

Mr. Greg Horeth, Chairman

Signed: _____

Ms. Margaret Shoptaw, Treasurer



Appendix C: 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.
- c. 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.
- d. 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.

Our audit will be performed in accordance with auditing standards generally accepted in the United States of America.

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 governing board 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?

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

- a. The entity'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 financial audit work during the months of July-August. Our final financial fieldwork is scheduled during November to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial 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.