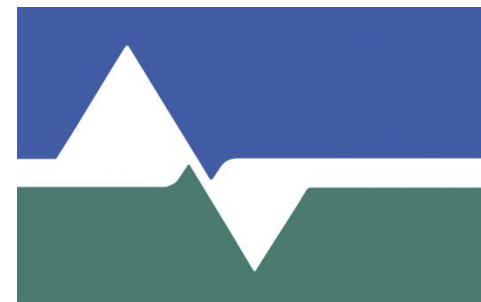




**Report to Governance**  
**City of Loveland, Colorado**

*December 31, 2015*



**City of Loveland**





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City of Loveland, Colorado

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# Introduction

## City of Loveland, Colorado

Honorable Mayor and  
Members of the City Council  
City of Loveland, Colorado

We are pleased to have the opportunity to present to you the results of our audit engagement of the City of Loveland, Colorado (the City), for the year ended December 31, 2015. The accompanying report presents information regarding the scope of our audit and other matters, which summarizes the results of our audit engagement.

We thank you for the opportunity to be of service to the City. We have received excellent cooperation and assistance from both management and staff with respect to access to records, supporting documentation and responses to inquiries. No limitations were placed upon our ability to perform the audit.

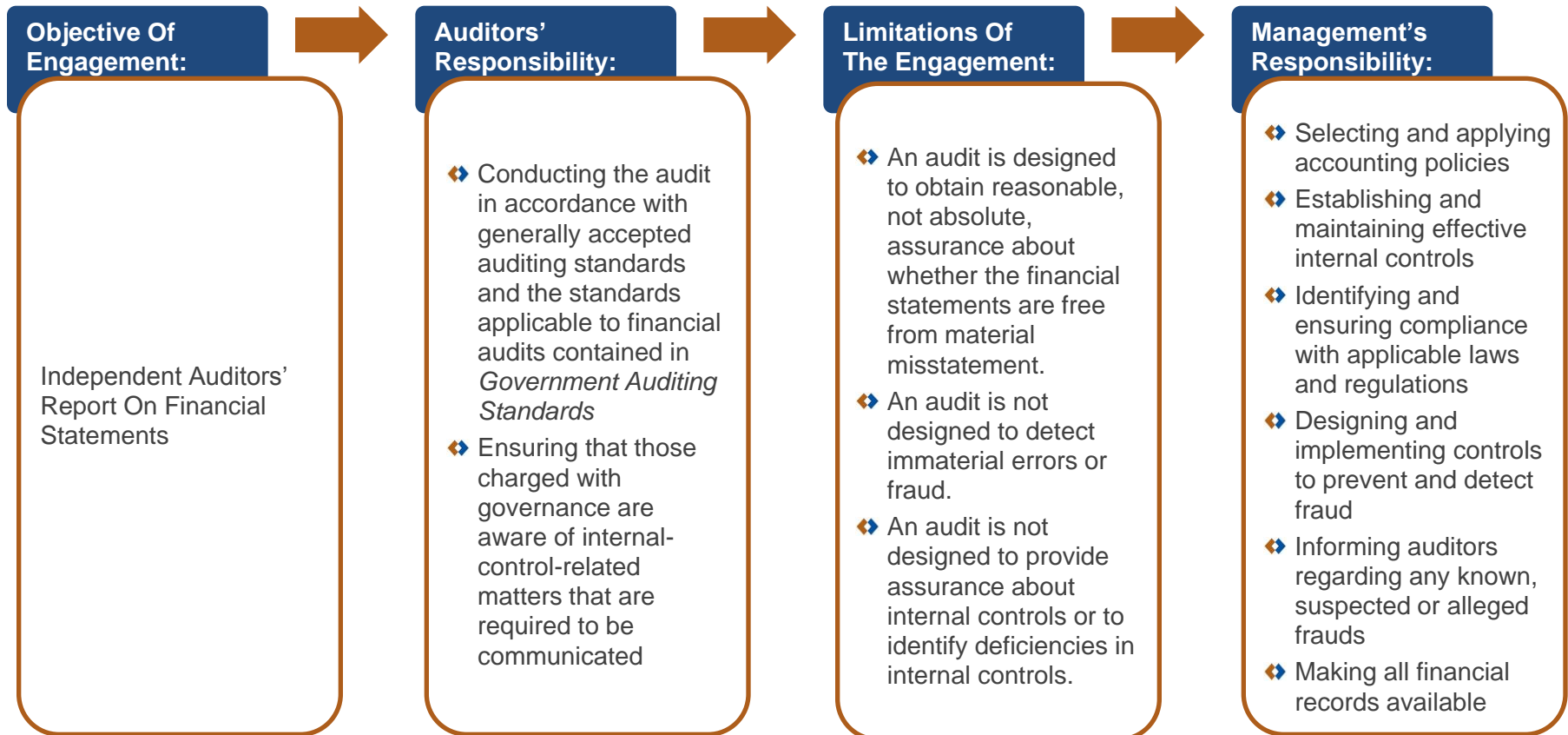
This communication is intended solely for the information and use of the Mayor, the Citizen's Finance Advisory Commission, the City Council, management and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.



# Engagement Team

City of Loveland, Colorado

ENGAGEMENT MEMBER	ROLE	TELEPHONE	EMAIL
Cheryl Wallace	Engagement Partner	303.952.1288	cheryl.wallace@rubinbrown.com
Matthew Marino	Engagement Manager	303.952.1221	matthew.marino@rubinbrown.com
Rodney Rice	Partner-In-Charge, Denver Assurance Services	303.952.1233	rodney.rice@rubinbrown.com
Michael T. Lewis	Managing Partner	303.952.1213	michael.lewis@rubinbrown.com





We have audited the basic financial statements of the City for the year ended December 31, 2015. Our audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and presented in accordance with accounting principles generally accepted in the United States of America. Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. We also assessed the accounting principles used by the City and the reasonableness of significant estimates made by the City's management, as well as evaluated the overall financial statement presentation.

Auditing standards require the auditor to ensure that those charged with governance receive additional information regarding the scope and results of the audit that may assist the governing body in overseeing the financial reporting and disclosure process for which management is responsible. The following section describes matters which are required to be reported to you.

AREA	COMMENTS
<p><b>Our Responsibility Under U.S. Generally Accepted Auditing Standards, Government Auditing Standards And OMB Uniform Guidance</b></p> <p>Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your assistance are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and whether the City complied in all material respects with the applicable compliance requirements of its major federal programs. Our audit of the financial statements and compliance does not relieve you or management of responsibility for the accuracy of the financial statements and/or compliance with applicable requirements.</p> <p>Professional standards also require that we obtain a significant understanding of the City’s internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Accordingly, we express no such assurance.</p>	<p>Reports issued by RubinBrown:</p> <ul style="list-style-type: none"> <li>◆ Unmodified report on the City’s financial statements based upon an audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and <i>Governmental Auditing Standards</i></li> <li>◆ A report on the City’s internal control over financial reporting and compliance and other matters based upon an audit of the financial statements in accordance with <i>Governmental Auditing Standards</i></li> <li>◆ Unmodified report on the City’s compliance for each major federal program and a report on internal control over compliance and report on the schedule of expenditures of federal awards in accordance with the Office of Management and Budget (OMB) Uniform Guidance (the Uniform Guidance)</li> </ul>



City of Loveland, Colorado

AREA	COMMENTS
<b>Other Information In Documents Containing Audited Financial Statements</b>	None
<b>Planned Scope And Timing Of The Audit</b>	We performed the audit according to the planned scope and timing previously communicated to you in our letter dated August 18, 2015 regarding the timing and extent of our audit procedures.
<b>Qualitative Aspects Of Accounting Practices</b> Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.	<ul style="list-style-type: none"> <li>◆ Significant accounting policies are described in Note 1.</li> <li>◆ No new accounting policies were adopted, and the application of existing policies was not changed, except for the following:               <ul style="list-style-type: none"> <li>◆ Governmental Accounting Standards Board (GASB) 68: <i>Accounting and Financial Reporting for Pensions</i> and GASB 71: <i>Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68</i> (GASB 68)</li> </ul> </li> <li>◆ We noted no transactions entered into during the year for which there was a lack of authoritative guidance or consensus.</li> <li>◆ No significant transactions have been recognized in a different period than when the transactions occurred.</li> </ul>

AREA	COMMENTS
<p><b>Management Judgments And Accounting Estimates</b> The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management’s expectations.</p>	<p>We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The most sensitive estimates affecting the financial statements are:</p> <ul style="list-style-type: none"> <li>◆ Management’s estimate of depreciation is based upon estimated useful lives of capital assets.</li> <li>◆ Management’s estimate of the allowance for bad debts is based on management’s review of outstanding receivables.</li> <li>◆ Management’s estimate of the net pension and post-employment benefit obligations are based on actuarial valuations and employee census data.</li> </ul>
<p><b>Financial Statement Disclosures</b></p>	<p>The disclosures are neutral, consistent and clear. Certain disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements are:</p> <ul style="list-style-type: none"> <li>◆ Disclosures for capital assets in Note 4</li> <li>◆ Disclosures for long-term debt in Note 5</li> <li>◆ Disclosure for retirement commitments in Note 10</li> <li>◆ Disclosure of fund balance designation in Note 13</li> </ul>

AREA	COMMENTS
<b>Difficulties Encountered In Performing The Audit</b>	The City Finance Department experienced some changes of roles and responsibilities for several key members and some software difficulties, which contributed to delays in timely processing and reconciling City data. These delays also affected the timing and completion of the year-end City audit.
<b>Corrected And Uncorrected Misstatements</b>	We have accumulated uncorrected misstatements that management has determined are not material, both individually and in the aggregate, to the financial statements taken as a whole. See the attached Passed Journal Entries Reports.
<b>Disagreements With Management</b>	None
<b>Management Representations</b>	Management representation letter received dated June 2, 2016, which is attached
<b>Management Consultations With Other Independent Accountants</b>	None
<b>Other Audit Findings Or Issues</b>	There were no matters of significant discussion that affected our retention as the City's auditors.

AREA	COMMENTS
<p><b>Other Matters (Supplementary Information)</b></p>	<p>With respect to the supplementary information (combining and individual fund financial statements and schedules, the schedule of expenditures of federal awards and the Local Highway Finance Report) accompanying the financial statements:</p> <ul style="list-style-type: none"> <li>◆ We made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles.</li> <li>◆ The method of preparing it has not changed from the prior period.</li> <li>◆ The information is appropriate and complete in relation to our audit of the financial statements.</li> <li>◆ We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.</li> </ul>

In planning and performing our audit of the financial statements of the City as of and for the year ended December 31, 2015 in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

## Current-Year Recommendations:

- ❖ **Financial Reporting Oversight Function:** According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), a best practice is to have a person independent of a process perform oversight and monitoring functions within a highly functioning control environment. Additionally, many of the special accounting issues for the City have become increasingly nonroutine and complex (i.e., accounting and reporting with regard to pensions, debt, etc.) and require extensive expertise to ensure that the accounting and reporting are accurate and in accordance with applicable standards. The current Finance Department manages the routine transactions adequately. The evolving nature of the City financial transactions may require a more robust comprehensive independent supervisory review function with regard to year-end financial reporting surrounding the preparation of the comprehensive annual financial report (CAFR). We recommend the City assess the current review process and evaluate the need to modify the process to address increasing complexity and level of supervisory review.
- ❖ **Cross-training Of Employees:** The City has completed some cross-training and reorganization due to turnover in City Finance staff. There are several key processes of the City, such as the preparation of the CAFR, which are still the primary responsibility of the City Senior Accountant. The concentration of these key processes with the City Senior Accountant contributed to the delays in financial reporting, as well as limiting the amount of supervisory review that is occurring on a number of transactions which are initiated and recorded by the City Senior Accountant. Some of these key processes should be performed by other team members, and then the City Senior Accountant would be in a position to perform oversight and monitoring of these key processes. We encourage the City to continue the evaluation of roles and responsibilities within the Finance Department.

## Current-Year Recommendations (*Continued*):

- ◆ **Period Close/Account Reconciliations:** The City experienced some turnover in staff and subsequent reassignment of roles and responsibilities which created challenges for the City, in addition to the increased volume as a result of the flood recovery activities. These challenges created a backlog of transactions which were not addressed timely. This is not uncommon for a department experiencing turnover and an increased volume of information. However, now that the department has settled in and is now working on moving forward with the team, it is also time to review and restructure a monthly, quarterly and yearly close process. The City should determine the transactions to be recorded monthly, quarterly and yearly and the appropriate resources (staff) to complete this process. By performing this analysis, the City will benefit by implementing a “hard close” process which will eliminate transactions, reconciliations and proper review and oversight being delayed and recorded and performed in future periods. The hard-close process could help to minimize the timing between period end and the release of interim financial reports to be utilized by City management and the City Council for analysis and decision-making purposes. It would also decrease the amount of work required to complete the year-end close process.

## Current-Year Recommendations (Continued):

### ❖ Controls Documentation In Accordance With The Uniform Guidance

Section 200.303 of the Uniform Guidance states the following:

“The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework,” issued by COSO.”

The City has a process in place for properly reporting federal grants on the schedule of expenditures of federal awards. It also has policies and procedures in place for ensuring compliance with federal awards, and the program directors are responsible for managing the federal awards.

The City should review the new requirements noted above and develop written policies and procedures that address the “Internal Control Integrated Framework” issued by COSO.



## City of Loveland, Colorado

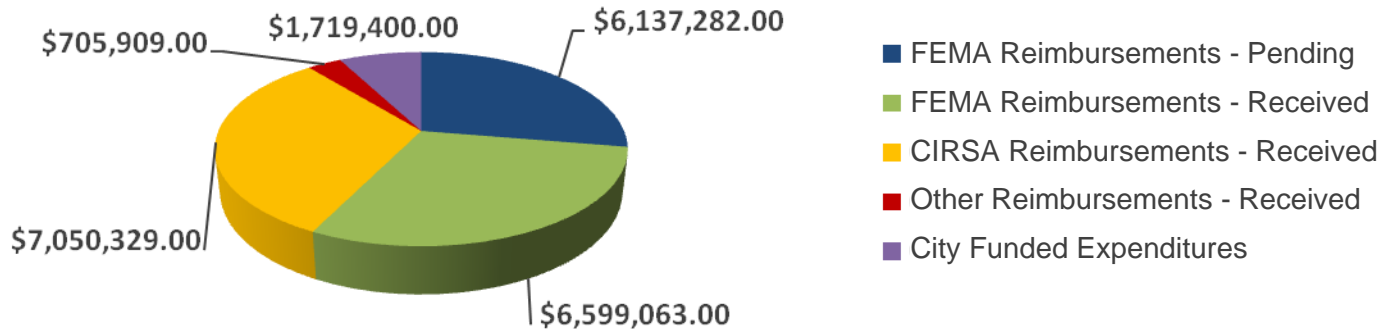
- Financial Transparency Gateway:** We noted the City has completed its launch of its financial transparency gateway in May 2016. It is available at <http://www.ci.loveland.co.us/index.aspx?page=2517ity>. We acknowledge the City’s commitment to transparent and accessible financial reporting with the launch of this interface that provides information such as annual expenditures to date by fund for the month to date and year to date; purchasing card transaction details, check register details, budget history, etc.



- Flood Recovery:** The City’s continued recovery from the floods of September 2013 is noted, and we commend the City’s continued commitment to recovering and rebuilding the City. We recognize the significant contributions all departments of the City have made toward this effort.

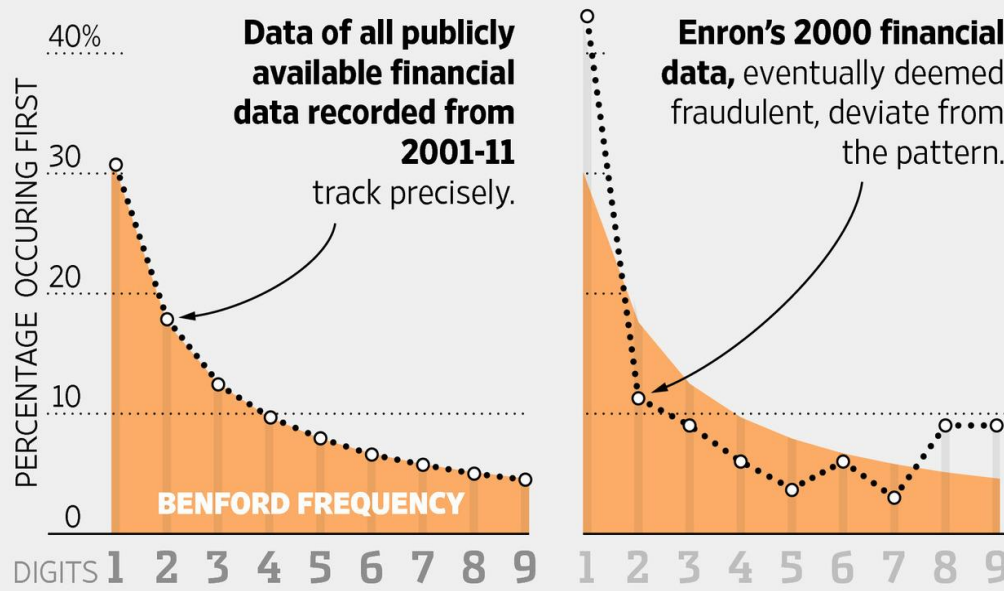
### Flood Recovery Expenditures as of December 31, 2015

Source: City of Loveland Monthly Snapshot December 2015



## Who's No. 1?

Benford's Law expects 30.1% of numbers in a list of financial transactions to begin with '1.' Each successive digit should represent a progressively smaller proportion. Below, orange indicates the expected Benford frequencies. When digits stray from the pattern, fraud may be to blame.

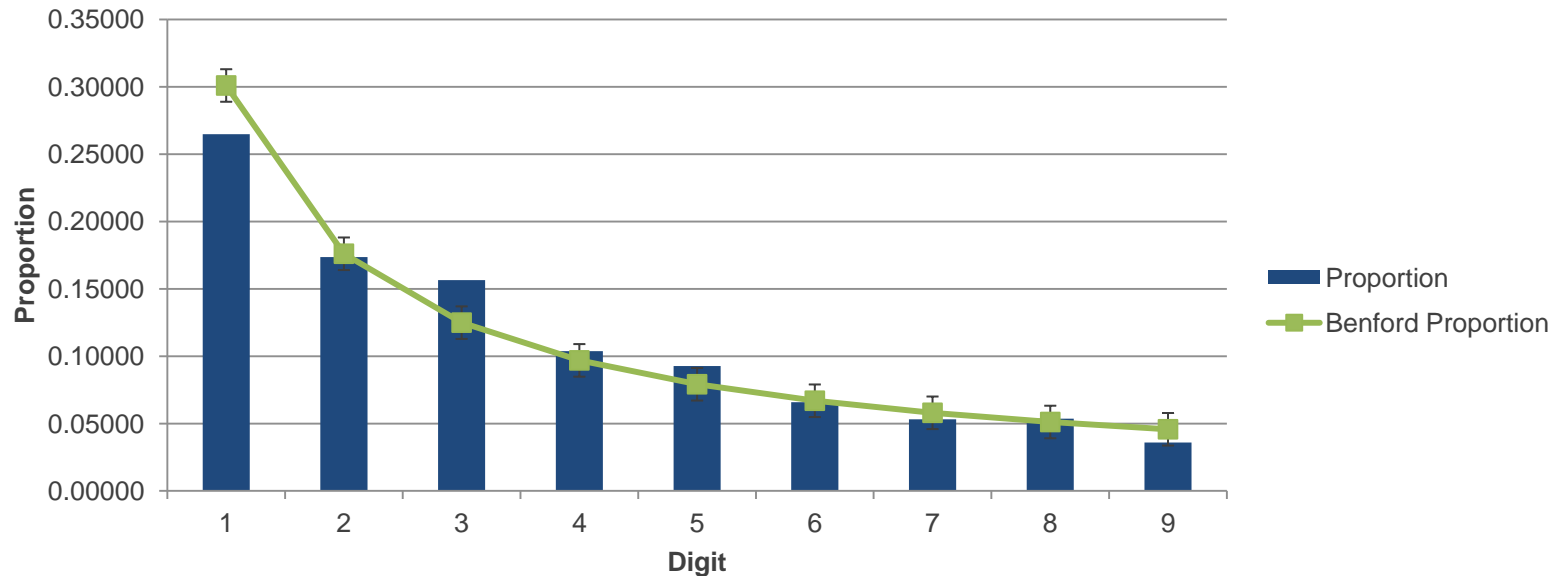


Source: Dan Amiram, Columbia University

The Wall Street Journal

*Benford's Law was established by Frank Benford in the 1930s. As volumes of data continue to grow, it has become a valuable tool in analyzing data sets for potential irregular activity.*

## First Digit Test For Amount



*RubinBrown ran a Benford's Law analysis on the City's cash disbursements for 2015. Benford's Law examines frequency distribution of leading digits in many (but not all) sets of numerical data to attempt to identify any abnormal trends within the data set.*

- ◆◆ GASB Statement No. 72, *Fair Value Measurements and Application*
  - ◆ Effective for 2016 City year end
  - ◆ Makes fair value reporting and disclosures comparable to for-profit Financial Accounting Standards Board accounting and reporting
  
- ◆◆ GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
  - ◆ Effective for 2018 City year end
  - ◆ Similar effect to GASB 68 for other postemployment benefits (Health and Welfare Plans)
  
- ◆◆ GASB Statement No. 77, *Tax Abatement Disclosures*
  - ◆ Effective for 2016 City year end
  - ◆ Requires governments that enter into tax abatement agreements to disclose certain information regarding the agreement and related provisions





# Independent Auditors' Report On Additional Information

City of Loveland, Colorado

Our report on our audit of the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2015 appears in the financial statements of the City. That audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information in this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion on it.

*RubinBrown LLP*

June 2, 2016



City of Loveland, Colorado

# Attachments

Client: **35253.0000 - City of Loveland**  
 Engagement: **2015 AUD - City of Loveland**  
 Period Ending: **12/31/2015**  
 Trial Balance: **TB Database**  
 Workpaper: **3012 - Passed Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Proposed JE # 1</b>		<b>4251.330</b>		
Per discussion with client we booked a PJE to account for unrecognized but earned revenue for 2015.				
330-00-000-0000-15011	Miscellaneous Receivables		58,576.00	
330-00-000-0000-35200	Miscellaneous			58,576.00
<b>Total</b>			<b><u>58,576.00</u></b>	<b><u>58,576.00</u></b>
<b>Proposed JE # 2</b>		<b>4240.605</b>		
To adjust Fund 503 revenue to actual.				
503-00-000-0000-32652	City Contrib-Life		6,640.00	
503-00-000-0000-32654	City Health Contrib - HRA		90,198.00	
503-00-000-0000-32655	City Health Contrib - OAP		312,659.00	
503-00-000-0000-32656	City Contrib - Dental		19,358.00	
503-00-000-0000-32657	City Contrib - Disability		600.00	
503-00-000-0000-32658	City Contrib- S T Disab		47.00	
503-00-000-0000-32660	City Contrib - Wellness		623.00	
503-00-000-0000-22000	Fund Balance			430,125.00
<b>Total</b>			<b><u>430,125.00</u></b>	<b><u>430,125.00</u></b>



CITY OF LOVELAND  
FINANCE DEPARTMENT

Civic Center • 500 East Third • Loveland, Colorado 80537  
(970) 962-2396 • FAX (970) 962-2900 • TDD (970) 962-2620

June 2, 2016

RubinBrown LLP  
1900 16th Street  
Suite 300  
Denver, CO 80202

We are providing this letter in connection with your audit of the financial statements of City of Loveland as of December 31, 2015 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Loveland and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles.

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 light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changes 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 understand we are responsible for management decisions and functions, for designating a qualified employee to oversee any nonattest services you provide, for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

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

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 U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles 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.



Printed on  
Recycled Paper



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 are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
8. The effects of uncorrected misstatements are immaterial both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.
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 records, 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. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. 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.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
16. We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
19. We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. We have a process to track the status of audit findings and recommendations.
22. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
23. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
24. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
25. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
26. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
27. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
28. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
29. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
30. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
31. The financial statements properly classify all funds and activities.
32. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
33. Components of net assets (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
34. Provisions for uncollectible receivables have been properly identified and recorded.
35. 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.

36. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
37. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
38. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
40. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
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 combining and individual fund financial statements and schedules, the schedule of expenditures of federal awards and the Local Highway Finance Report.
  - a. We acknowledge our responsibility for presenting the combining and individual fund financial statements and schedules, the schedule of expenditures of federal awards and the Local Highway Finance Report. in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual fund financial statements and schedules, the schedule of expenditures of federal awards and the Local Highway Finance Report., 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 combining and individual fund financial statements and schedules, the schedule of expenditures of federal awards and the Local Highway Finance Report 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 combining and individual fund financial statements and schedules, the schedule of expenditures of federal awards and the Local Highway Finance Report 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. With respect to federal award programs:
  - a. We are responsible for understanding and complying with and have complied with the requirements of the OMB Uniform Guidance including requirements relating to preparation of the schedule of expenditures of federal awards.

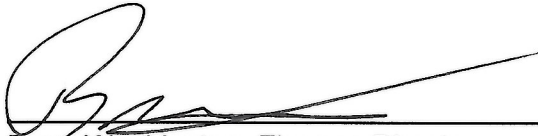
- b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of the OMB Uniform Guidance and we believe the SEFA, including its form and content, is fairly presented in accordance with the OMB Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
- c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.
- d. We have identified and disclosed to you all of our government programs and related activities subject to the OMB Uniform Guidance and included in the SEFA 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 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 program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Uniform Guidance and related Compliance Supplement relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal 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 auditor's report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received

and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in the OMB 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 compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- r. Federal 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 program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the OMB Uniform Guidance.
- u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
- v. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. 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 OMB Uniform Guidance and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the OMB Uniform Guidance.

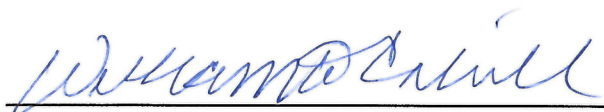
z. We are responsible for preparing and implementing a corrective action plan for each audit finding.

44. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.



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Brent Worthington, Finance Director



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Bill Cahill, City Manager