

MANAGEMENT COMMUNICATIONS
CITY OF MANITOWOC, WISCONSIN
DECEMBER 31, 2015

CITY OF MANITOWOC, WISCONSIN
December 31, 2015

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To the Honorable Mayor and City Council
City of Manitowoc, 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 City of Manitowoc, Wisconsin (the "City") for the year ended December 31, 2015. The City's financial statements, including our report thereon dated June 10, 2016, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards, Federal Uniform Guidance and *State Single Audit Guidelines*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal and state programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Federal Uniform Guidance and the *State Single Audit Guidelines*.

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 grants. Also in accordance with Federal Uniform Guidance and the *State Single Audit Guidelines*, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Compliance Supplement" and the *State Single Audit Guidelines* applicable to each of its major federal and state programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

Significant Audit Findings

Consideration of Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 188 – 189 of the annual report.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 are described in Note A to the financial statements. As described in Note E.5 to the financial statements, the City changed accounting policies related to pension accounting by adopting Statement of Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, in 2015. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, 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 estimates included in the financial statements were:

Management's estimate of the other post-employment benefits is based on an actuarial report. We evaluated the key factors and assumptions used to develop the other post-employment benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the incurred, but not reported (IBNR) insurance reserves are based on actuarial projections of the expected cost of the ultimate settlement and administration of claims. We evaluated the key factors and assumptions used to develop the reserves in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of accumulated compensated absences is based upon analysis employees leave balance. We evaluated the key factors and assumptions and the consistency in these factors and assumption used to develop the depreciable life 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 outflows/inflows of resources is based on information received from the Wisconsin Retirement System. We evaluated the key factors and assumptions used to develop the net pension asset and related deferred outflows/inflows of resources in determining that they are reasonable in relation to the financial statements taken as a whole.

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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Copies of the audit adjustments are available from management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. 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 dated June 10, 2016. The management representation letter follows this communication.

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 City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the management's discussion and analysis and the schedules relating to pensions and other post-employment benefits, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Sincerely,



Certified Public Accountants
Green Bay, Wisconsin
June 10, 2016

GENERAL CITY

SUMMARY FINANCIAL INFORMATION

1. Governmental Fund Balances

Presented below is a summary of the various City governmental fund balances on December 31, 2015, including a comparison to the prior year. This information is presented for assisting management in assessing financial results for 2015 and for indicating financial resources available at the start of the 2016 budget year.

	12/31/15	12/31/14
General Fund		
Nonspendable		
Long-term receivables	\$ 3,329,843	\$ 4,267,385
Inventories and prepaid items	606,445	561,424
Assigned for future projects	292,984	91,312
Unassigned	2,753,249	1,416,511
Total General Fund	<u>6,982,521</u>	<u>6,336,632</u>
Special Revenue Funds		
Room tax	484,217	337,960
Farmer's market	40,658	37,728
Tax Incremental District #7	107,774	130,779
Commercial revolving loan program	749,273	746,913
Transit capital grant	10,926	34,979
Housing revolving loan programs	120,576	283,695
Community development block grant	(63,040)	(32,383)
HCRI revolving loan programs	42,265	36,919
Industrial revolving loan program	1,172,975	1,761,480
Library and library donations	55,239	26,111
Manitowoc International Relations Association	8,036	8,036
Rahr West Museum	324,739	307,107
Police programs	112,603	92,594
Parkland dedication	260,798	262,988
Aquatic center	(37,169)	(79,387)
Senior center	149,363	129,421
Eternal flame	30,969	34,141
Centennial	12,130	11,244
Park and rec donations	128,918	114,402
Lakeshore holiday parade	1,779	-
EPA Grant	(6)	-
Total Special Revenue Funds	<u>3,713,023</u>	<u>4,244,727</u>
Debt Service Fund	<u>1,301,231</u>	<u>617,396</u>

(Continued)

1. Governmental Fund Balances (Continued)

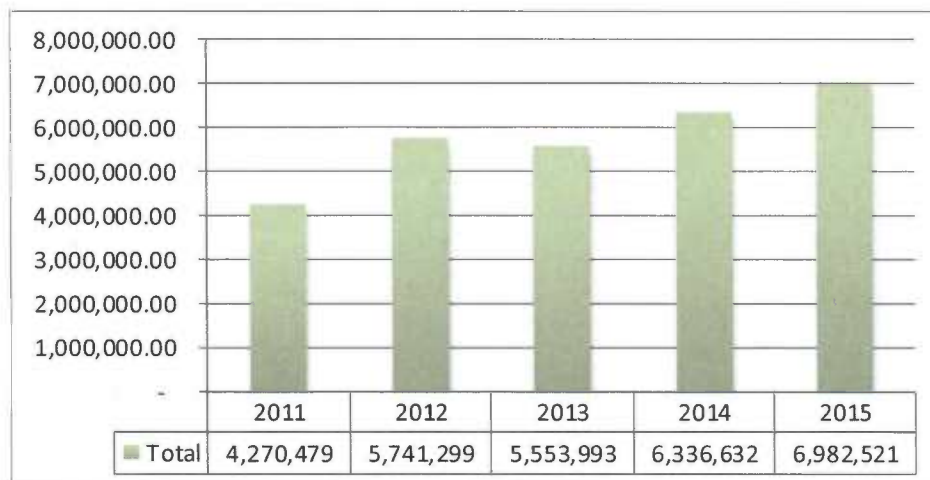
	12/31/15	12/31/14
Capital Projects Funds		
Sanitary and storm sewers	(1,063,469)	(1,714,018)
Streets	(2,403,097)	(2,927,061)
Capital equipment	910,068	1,316,552
Tax Incremental District #9	(378,423)	(559,849)
Tax Incremental District #11	(88,718)	(70,523)
Tax Incremental District #12	-	(135,592)
Tax Incremental District #14	(503,026)	(400,462)
Tax Incremental District #15	68,171	-
Tax Incremental District #16	(1,553,934)	(1,418,411)
Tax Incremental District #18	(1,017)	-
Cemetery improvements	30,207	24,142
Environmental remediation	160,431	76,150
Buildings and other improvements	637,661	331,183
Total Capital Projects Funds	<u>(4,185,146)</u>	<u>(5,477,889)</u>
Total Governmental Fund Balances	<u>\$ 7,811,629</u>	<u>\$ 5,720,866</u>

The City's General Fund balance increased \$645,889 during 2015. This was due to favorable variances in police and fire, public works, and conservation and development expenditures, being greater than negative revenue variances, mostly in rescue squad fees. The City also received insurance proceeds from the prior year's storm damage.

The unassigned portion of the General Fund (basically the amount that is available for contingencies or future spending) increased \$1,336,738. A reduction of long-term receivables in the nonspendable fund balance and the overall increase in fund balance note above contributed to this increase.

The following chart shows the change in the City's General Fund balance for the five most recent years.

General Fund Balance



2. Fiduciary Fund Balances

Fiduciary funds represent assets held by the City in a trustee capacity that are restricted to finance expenditures for specific purposes. The only City fund which qualifies as a fiduciary fund is the Poor Relief Fund. The balance in the fund at December 31, 2015 was \$15,912 compared to \$16,699 at the end of 2014.

3. Cash Advances to Other Funds

On December 31, 2015 the City had eight funds that showed operating cash deficits (negative cash balances). The operating cash deficits result from insufficient cash available in each of the funds to finance current fund expenditures as of December 31, 2015. The net effect of the foregoing is to require the general fund and the debt service fund to temporarily advance their share of the City's pooled bank cash in order to finance voucher disbursements of the respective funds. Cash advances totaled \$4,821,964 on December 31, 2015 as follows:

	Cash Advanced 12/31/15
Advanced to	
Special Revenue Funds	
Aquatic Center	\$ 32,198
CDBG	63,040
EPA Grant	1,232
Capital Projects Funds	
Streets	2,201,608
Tax Increment District #9	378,423
Tax Increment District #11	88,718
Tax Increment District #14	503,026
Tax Increment District #16	1,553,934
Tax Increment District #18	1,017
Total Advanced by the General and Debt Service Funds	<u>\$ 4,823,196</u>

4. Loans Due City

The City's Planning Department administers four separate revolving loan programs for City development. Individual revolving loan receivable accounts recorded on the City's general ledger showed a balance of \$5,613,590 due the City on December 31, 2015 as summarized below:

Commercial development loans	\$ 11,944
Industrial development loans	2,471,027
Housing rehabilitation loans	3,003,993
Housing cost reduction initiative loans	126,626
Total	<u>\$ 5,613,590</u>

The above loans receivable are off-set by deferred inflow of revenue accounts in the respective funds maintained for the loan programs.

Additional discussion on the four revolving loan programs follows:

Commercial Development – Payments on the one commercial development loan outstanding are current as of December 31, 2015.

Industrial Development – Payments on the six industrial development loans outstanding are current as of December 31, 2015.

Housing Rehabilitation – The City has received grants from the Wisconsin Department of Administration to be used to make housing rehabilitation loans to individuals. Under the program, qualified individuals can apply for loans to be used to make necessary repairs to their homes. All repayments of these loans are deferred until the house which was repaired is sold, transferred, or ceases to be the borrower's principal place of residence. At that time, the loan is payable in full. There is no interest charged on these loans. All loan repayments are to remain with the City as long as the repayment proceeds are used to provide additional loans to qualified individuals.

Housing Cost Reduction Initiative – The City received grants from the Wisconsin Department of Administration to be used to benefit first-time home buyers. Under the program, qualified individuals can apply for loans to pay the closing costs and interest rate buy-down costs associated with the home purchase. All repayments of the loans are deferred until the purchased home is sold, transferred, or ceases to be the borrower's principal place of residence. At that time, the loan is payable in full. There is no interest charged on these loans. All loan repayments are to remain with the City as long as the repayment proceeds are used to provide additional loans to qualified individuals.

5. Health Self-Insurance Fund

Financial transactions of the health self-insurance program are recorded in a separate internal service fund on the City's accounting system to allow management to more easily monitor the operations of the fund. A summary of 2015 transactions with a comparison to 2014 for the health self-insurance fund follows:

	2015	2014
Operating Revenues		
Charges to City departments, employees and retirees for health insurance coverage	<u>\$ 3,455,662</u>	<u>\$ 3,567,046</u>
Operating Expenses		
Health care claims and other costs	<u>3,687,258</u>	<u>3,753,551</u>
Operating Loss	<u>(231,596)</u>	<u>(186,505)</u>
Nonoperating Revenues		
Insurance recoveries	<u>75,473</u>	<u>149,386</u>
Change in Net Position	(156,123)	(37,119)
Net Position - January 1	<u>1,495,276</u>	<u>1,532,395</u>
Net Position - December 31	<u>\$ 1,339,153</u>	<u>\$ 1,495,276</u>

The fund generated a negative change in net position of \$156,123 due to premium charges not being sufficient to cover all operating costs.

6. Wastewater Treatment Plant

Presented below is a comparative summary of revenues, expenses, and changes in net position for the wastewater treatment plant enterprise fund for the years ended December 31, 2015 and 2014:

	2015	2014
Operating Revenues		
Charges for services	\$ 7,178,115	\$ 6,714,873
Other	-	3,168
Total Operating Revenues	<u>7,178,115</u>	<u>6,718,041</u>
Operating Expenses		
Operation and maintenance	3,967,634	3,673,279
Depreciation	1,592,984	1,037,582
Total Operating Expenses	<u>5,560,618</u>	<u>4,710,861</u>
Operating Income	<u>1,617,497</u>	<u>2,007,180</u>
Nonoperating Revenues (Expenses)		
Miscellaneous	2,961	1,922
Loss on disposal of capital assets	(4,464)	-
Interest and fiscal charges	(188,454)	(233,652)
Total Nonoperating Revenues (Expenses)	<u>(189,957)</u>	<u>(231,730)</u>
Net Income before Transfers	1,427,540	1,775,450
Transfers out	<u>(27,125)</u>	<u>(26,393)</u>
Change in Net Position	<u>1,400,415</u>	<u>1,749,057</u>
Net Position - January 1	22,221,005	20,471,948
Cumulative effect of change in accounting principle	<u>272,752</u>	<u>-</u>
Net Position - January 1, as restated	<u>22,493,757</u>	<u>20,471,948</u>
Net Position - December 31	<u>\$ 23,894,172</u>	<u>\$ 22,221,005</u>

The wastewater treatment plant generated a net gain of \$1,400,415 in 2015 compared to a net gain of \$1,749,057 for 2014 due to the increase in depreciation expense.

7. Transit System

The City records financial transactions of the transit system as an enterprise fund on the financial statements. A comparative summary of revenues, expenses, and changes in net position for the years ended December 31, 2015 and 2014 follows:

	2015	2014
Operating Revenues		
Charges for services	\$ 195,708	\$ 199,353
Operating Expenses		
Operation and maintenance	1,890,176	1,961,604
Administrative and general	736	-
Depreciation	165,389	384,697
Total Operating Expenses	<u>2,056,301</u>	<u>2,346,301</u>
Operating Loss	<u>(1,860,593)</u>	<u>(2,146,948)</u>
Nonoperating Revenues		
General property taxes	251,503	251,503
Federal and state grants	1,206,367	1,213,666
Local grants	291,447	291,447
Miscellaneous	39,920	43,770
Total Nonoperating Revenues	<u>1,789,237</u>	<u>1,800,386</u>
Loss before Contributions	(71,356)	(346,562)
Transfers out	<u>(5,018)</u>	<u>(5,190)</u>
Change in Net Position	<u>(76,374)</u>	<u>(351,752)</u>
Net Position - January 1	2,337,321	2,689,073
Cumulative effect of change in accounting principle	<u>275,379</u>	<u>-</u>
Net Position - January 1, as restated	<u>2,612,700</u>	<u>2,689,073</u>
Net Position - December 31	<u><u>\$ 2,536,326</u></u>	<u><u>\$ 2,337,321</u></u>

The transit system showed a decrease in net position of \$76,374 for 2015 compared to a decrease in net position of \$351,752 for 2014. Reduced operating expenses in fuel, vehicle parts, and advertising contributed to a reduction of the net loss for the year.

It is important to remember that the operating loss includes the annual depreciation expense on transit equipment. Since the equipment is purchased through tax levies and federal grants, it is not considered necessary that the transit operation recover these costs.

8. Potential Component Units

In order to more accurately reflect the financial resources available to a governmental entity, generally accepted accounting principles require that the financial activity of certain legally separate organizations be included in the government's annual financial report. Factors to consider in determining whether an organization would be included in government's annual financial report include the following:

- Does the government appoint a majority of the organization's governing body?
- Can the government control the revenues, spending, or budget of the organization?
- Is the government entitled to the organization's resources?
- Are the economic resources held by the organization entirely or almost entirely for the direct benefit of the government or its constituents?
- Has the government historically received, either directly or indirectly, a majority of the economic resources of the organization?

Organizations that meet the criteria would be included as component units and reported in separate columns, similar to the other funds of the government, in the annual financial report.

We are aware of a number of not-for-profit organizations that may meet the criteria for inclusion in the City's financial report. These organizations include the following:

- Manitowoc Public Library Foundation
- Friends of the Manitowoc Family Aquatic Center
- Lincoln Park Zoological Society of Manitowoc County, Inc.
- Rahr West Art Museum Charitable Foundation Inc.

There may also be other organizations that we are not aware of.

We recommend that operations of identified organizations be reviewed to determine if they meet the criteria for inclusion in the City's financial report. We would be able to assist you with the determination if considered necessary.

9. New Accounting Standards

Fair Value Measurement and Application

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurement, primarily for investments. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also provides guidance on how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. It establishes a hierarchy of inputs to valuation techniques used to measure fair value. That fair value hierarchy has three levels of inputs based on the objectivity and reliability of the information. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs for similar assets or liabilities. Finally, Level 3 inputs are unobservable inputs. GASB Statement No. 72 requires additional footnote disclosures about fair value measurement, the level of fair value hierarchy and valuation techniques used.

The new standard is effective for years beginning after June 15, 2015, although early application is encouraged. We recommend that the City review the new standard, determine its investments that are subject to fair value measurement and value those investments according to the valuation techniques and inputs outlined in the Statement. We are able to assist you in implementing this standard.

Accounting and Reporting for Other Post-employment Benefits

In June 2015, the Governmental Accounting Standards Board (GASB) issued two new pronouncements relating to other post-employment benefits (OPEB). GASB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions* significantly change the accounting and financial reporting of post-employment benefits that was established in GASB Statement Nos. 43 and 45. The primary purpose of these Statements is to improve accounting and financial reporting of OPEB obligations and enhance transparency of OPEB related information in your financial statements similar to how GASB Statements Nos. 67 and 68 were designed.

Currently, governments report a liability related to other post-employment liabilities for the unfunded portion of the annual required contribution, which includes an amortization of the Unfunded Actuarial Liability (UAL) over an open period of time, not to exceed 30 years. Upon implementing the new standards, the City will recognize the difference between total OPEB liability and any plan assets (net OPEB liability) in the government-wide and proprietary financial statements, often resulting in a significant increase in the OPEB liability reported in your financial statements. The new standards also require that the entry age normal cost method be used to determine the liability, deferred inflows and outflows of resources to be reported for changes in economic and demographic assumptions and differences between expected and actual experience, and additional note disclosures and schedules.

10. Uniform Grant Guidance

The U.S. Office of Management and Budget (OMB) has issued new Uniform Grant Guidance which replaces the previous Single Audit Guidelines issued under various OMB Circulars. The new Uniform Guidance requires organizations that receive Federal grant awards to enhance their control documentation over managing these grants in an effort to strengthen oversight over the management and spending of these funds. The enhanced documentation requires organizations to identify and document key controls over the receipt and disbursement of federal funds. This documentation would occur at both the department level for the department managing the grant and at the overall organization level.

As part of the current year audit, we completed the audit of your federal programs following the new Uniform Guidance which requires us to review documentation of your policies and procedures, design tests to determine the policies and procedures are operating effectively, and that you are compliant with the specific requirements of the federal award tested. Our procedures indicated that we believe you are meeting the minimum requirements, but believe documentation could be improved by identifying and documenting key controls for each individual grant.

Another key control related to federal award monitoring relates to the organization's ability to monitor all grant awards administrated by the organization. Currently many of the City's grant programs are administered by individual City Departments. In order to increase organizational control over grant monitoring and eventual reporting to the appropriate federal agencies, we recommend that a specific individual in the organization be identified to accumulate and review grant information. This position would be responsible for obtaining copies of grant contracts from individual departments, obtaining copies of claim forms filed for reimbursement, and periodically reconciling amounts claimed for reimbursement to expenditures recorded in the City's general ledger.

We would be available to assist the City with the implementation of the recommendations noted above.

APPENDIX



June 10, 2016

Schenck SC
2200 Riverside Drive
P.O. Box 23819
Green Bay, WI 54305-3819

This representation letter is provided in connection with your audit of the financial statements of the City of Manitowoc, (the "City"), which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2015, and the respective changes in the financial position and where applicable, cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).



OFFICE OF FINANCE/
TREASURER

Certain representations in this letter are described as being limited to matters that are material. Items in No. 57 are considered material based on the materiality criteria specified in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. 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 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, as of June 10, 2016, 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 dated November 5, 2015, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary



government required by generally accepted accounting principles to be included in the financial reporting entity.

3. In regards to accounting estimates:

- The measurement processes used by management in determining accounting estimates is appropriate and consistent.
- The assumptions appropriately reflect management's intent and ability to carry out specific courses of action.
- The disclosures related to accounting estimates are complete and appropriate.
- No subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.

4. 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.

5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

6. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

7. 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 U.S. GAAP.

8. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

9. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the City's accounts.

10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

11. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

12. 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.
- b. Additional information that you have requested from us for the purpose of the audit.
- c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.

- d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 14. We made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:
 - a. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - i. Management,
 - ii. Employees who have significant roles in internal control, or
 - iii. Others where the fraud could have a material effect on the financial statements.
 - b. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
 15. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
 16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
 17. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

Government - specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have a process to track the status of audit findings and recommendations.
20. 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.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
22. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred inflows/outflows of resources, or equity.
23. 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 legal and contractual provisions for reporting specific activities in separate funds.
24. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

25. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
26. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
27. 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.
28. As part of your audit, you assisted with preparation of the financial statements and related notes, the schedule of expenditures of federal awards, and the schedule of state financial assistance. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, the schedule of expenditures of federal awards, and the schedule of state financial assistance.
29. 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, except as disclosed in the financial statements.
30. 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.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. 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.
33. The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
34. 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.
35. 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.
36. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
37. Provisions for uncollectible receivables have been properly identified and recorded.
38. 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.
39. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
40. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

41. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
42. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
43. Joint ventures, jointly governed organizations, and other related organizations have been properly disclosed in the financial statements.
44. 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 position is available and have determined that net position is properly recognized under the policy.
45. We are following our established accounting 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. That policy determines the fund balance classifications for financial reporting purposes.
46. 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.
47. We acknowledge our responsibility for presenting the nonmajor fund combining statements, individual fund statements, supporting schedules, and statistical data (the supplementary information) in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, 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 supplementary information 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.
48. We agree with the findings of specialists in evaluating the other post-employment benefits, pension benefits, and incurred but not reported claims and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
49. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the City's name" during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.
50. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
51. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

52. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been reduced to their estimated net realizable value.
53. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
54. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
55. We do not plan to make frequent amendments to our pension or other post-retirement benefit plans.
56. We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are now within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, No. 74, *Financial Reporting for Post-employment Benefit Plans other than Pension Plans*, No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, as discussed in Note E.6. The City is therefore unable to disclose the impact that adopting these GASB Statements will have on its financial position and the results of its operations when the Statements are adopted.
57. With respect to federal and state award programs:
 - a. We are responsible for understanding and complying with and have complied with the requirements of the Uniform Guidance and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration, including requirements relating to preparation of the schedule of federal awards and the schedule of state financial assistance.
 - b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of the Uniform Guidance and the schedule of state financial assistance (SSFA) in accordance with the requirements of the *State Single Audit Guidelines* and we believe the SEFA and SSFA, including their form and content, are fairly presented in accordance with the Uniform Guidance and the Guidelines. The methods of measurement or presentation of the SEFA and SSFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA and SSFA.
 - c. If the SEFA and SSFA are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA and SSFA no later than the date we issue the SEFA and SSFA and the auditors' report thereon.
 - d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and the *State Single Audit Guidelines* and have included in the SEFA and SSFA expenditures made during the audit period for all awards provided by federal and state 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 federal and state statutes, regulations, and the terms and conditions of federal and state awards related to each of our federal and state programs and have identified and disclosed to you the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards that are considered to have a direct and material effect on each major federal and state program.

- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of federal and state awards that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended.
- g. We have made available to you all federal and state awards (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relevant to federal and state programs and related activities.
- h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements, (except for noncompliance disclosed to you), including, when applicable, those set forth in the *OMB Compliance Supplement* and the *State Single Audit Guidelines*, relating to federal and state awards.
- j. We have disclosed any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation 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 auditors' report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR Part 200, subpart E), if applicable.
- 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 and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditors' report.
- r. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

- s. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
 - t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with federal and state statutes, regulations and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance and the *State Single Audit Guidelines*.
 - u. We have issued management decisions for audit findings that relate to federal and state awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal and state award provided to the subrecipient.
 - 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 and state 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 Uniform Guidance and the *State Single Audit Guidelines* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
 - y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
 - z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
 - aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.
58. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
59. 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.

Signed:



Steven Corbeille
Finance Director