



To the Common Council  
City of Manitowoc  
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 the City of Manitowoc, Wisconsin (City) as of and for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to the audit.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards in the United States of America, Governmental Auditing Standards Issued by the Comptroller General of the United States, Uniform Guidance, and Wisconsin State Single Audit Guidelines**

As stated in our engagement letter dated August 30, 2021, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the schedules referenced as RSI in the financial statement's table of contents, which supplement the basic financial statements, was to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance, we did not express an opinion or provide any assurance on the RSI.

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

We did not audit the introductory and statistical sections as well as the budgetary information included in the supplementary information and accordingly, we express no opinion on it. This additional information is required to be presented if the City issues an Annual Comprehensive Financial Report to provide a historical and environmental context of the City.

**Audit Scope, Significant Risks and Other**

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

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures.

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

We identified management override of controls, improper revenue recognition, and misuse of credit cards as significant risks of material misstatement as part of our audit planning. We designed audit procedures in response to these risks.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

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

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

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

Management's estimate of the net pension asset and related deferred outflows/inflows is based on an actuarial valuation. We evaluated the key factors and assumptions used to develop the net pension asset and related deferred outflows/inflows in determining that it is reasonable in relation to the financial statements as a whole.

Management's estimate of the other post-employment liabilities and related deferred outflows/inflows is based on an actuarially determined amount. We evaluated the key factors and assumptions used to develop the OPEB liabilities and deferred outflows/inflows in determining that it is reasonable in relation to the financial statements taken as a whole.

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

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

The disclosure of net pension asset and related deferred outflows/inflows and their related risks are discussed in Note 10 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the City's net pension asset and related deferred outflows/inflows.

The disclosure of other post-employment benefits liabilities and related deferred outflows/inflows and their related risks are discussed in Note 11 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the City's OPEB liabilities and related deferred outflows/inflows.

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

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter, dated July 29, 2022.

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

#### *Other Audit Findings or Issues*

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

#### **Internal Control Over Financial Reporting**

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 of Manitowoc, Wisconsin as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, 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 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 first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Other Matters**

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

**Other Items**

**Governmental Fund Balances**

Presented below is a summary of the City's governmental fund balances on December 31, 2021 and 2020. This information is provided for assessing financial results for 2021 and indicating financial resources available at the start of the 2022 budget year.

	<u>12/31/2021</u>	<u>12/31/2020</u>
<b>Nonspendable</b>		
General Fund		
Prepaid Items	\$ 602,710	\$ 555,996
Delinquent Personal Property Taxes	14,440	-
Long Term Accounts and Interfund Receivables	802,652	1,804,313
Capital Equipment Fund	-	74,810
Total Nonspendable Fund Balance	<u>\$ 1,419,802</u>	<u>\$ 2,435,119</u>
<b>Restricted</b>		
Special Revenues		
Housing Rehabilitation	2,019,598	3,107,703
Transit Capital	-	174,657
Community Development	37,353	-
HCRI Housing Rehabilitation	141,511	80,819
Police Programs	516,851	452,713
Parkland Dedications	22,727	72,698
Eternal Flame	41,734	27,394
Centennial	19,137	17,733
Mayor's Youth Action Council	165	-
Park & Recreation	148,145	165,892
Lakeshore Holiday Parade	6,445	6,456
EPA Environmental Remediation	230,059	229,923
Housing Programs	1,732,192	1,500,203
TID 7	-	6,885
Total Special Revenue Funds Restricted	<u>\$ 4,986,534</u>	<u>\$ 5,843,076</u>

**Other Items (Continued)**

**Governmental Fund Balances (Continued)**

**Restricted (Continued)**

Capital Projects Funds

Tax Incremental Districts:

TID 9	\$ 525	\$ 10,650
TID 10	-	164,754
TID 11	-	12,079
TID 12	-	132,745
TID 14	12,561	23,186
TID 15	7,939	63,627
TID 17	47,207	38,430
TID 18	1,519,297	1,581,344
TID 20	223,148	-
TID 21	483,589	-
TID 22	805,520	178,041

Total Capital Projects Funds Restricted	<u>\$ 3,099,786</u>	<u>\$ 2,204,856</u>
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Debt Service	<u>\$ 4,467,420</u>	<u>\$ 4,118,846</u>
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Total Restricted Fund Balance	<u>\$ 12,553,740</u>	<u>\$ 12,166,778</u>
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**Committed**

Special Revenue Funds:

Room Tax	\$ 446,554	\$ 368,143
Revolving Loan Program	150,980	-
Manitowoc/Calumet Library	16,109	12,733
Library	239,912	220,691
Mani International Relations	4,856	4,856
Rahr West Museum	184,718	236,229
Aquatic Center	77,074	22,448
Senior Center	71,244	65,847
Total Special Revenue Funds	<u>1,191,447</u>	<u>930,947</u>

Capital Projects Funds:

Sanitary and Storm Sewers	60,955	74,024
Capital Equipment	1,619,831	650,551
Environmental Remediation	925,917	1,203,612
Special Projects	1,673	-
Cemetery Improvements	39,065	26,920
Buildings and Other Improvements	1,140,954	1,528,585
Total Capital Projects Funds	<u>3,788,395</u>	<u>3,483,692</u>

Total Committed Fund Balance	<u>\$ 4,979,842</u>	<u>\$ 4,414,639</u>
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**Other Items (Continued)**

**Governmental Fund Balances**

(Continued)

**Assigned**

General Fund:

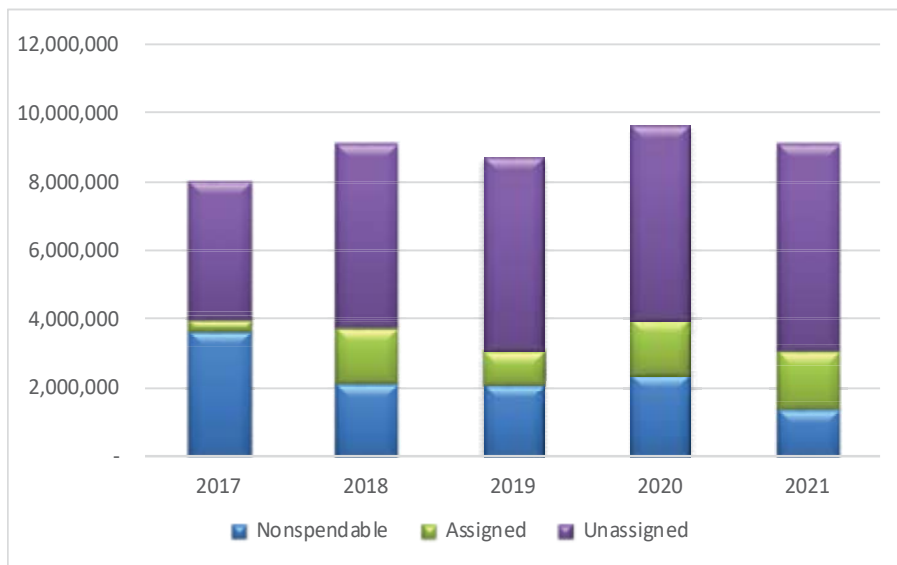
Vacation and Sick Leave	\$ 500,000	\$ -
Community Development	712,583	-
Compensation Plan Fund	-	350,000
Fire Safety Equipment	-	683,516
EMS Training	-	42,872
Fire Donation	-	10,629
Legal Defense Fund	-	4,407
Fuel Handling Surcharge	-	51,268
Marina Fund	-	100,000
Car Ferry Fund	-	16,006
Economic Development Marketing	-	119,887
Tree Fund	-	11,761
Winter Maintenance Fund	-	100,000
Yacht Club Facilities	500,000	22,721
Contingencies	-	175,000
	<u>                    </u>	<u>                    </u>
Total Assigned Fund Balance	<u>\$ 1,712,583</u>	<u>\$ 1,688,067</u>

**General Fund**

Overall, the City's general fund decreased by \$555,843 for the year ended December 31, 2021, due to an increase in expenditure over all functional categories, except for a decrease in conservation and development. Although the City's expenditures increased from the previous year, they were still less than budgeted for the fiscal year ended December 31, 2021.

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We believe the unassigned fund balance of \$5,973,002 is necessary to allow the City to maintain current operations, finance unplanned contingencies, and provide additional cash flow due to the lag in receiving tax revenues and state aids due to the City. In addition, an unassigned fund balance can be used stabilize the City's tax rate. Currently, the City's unassigned General Fund balance reports approximately 66% of the General Fund's fund balance of \$9,105,387. The unassigned portion of \$5,973,002 is approximately 22% of the General Fund's expenditures. The council's policy is for this percentage to fall between 15-30%. The City should continue to regularly evaluate the suitability of the policy in discussion with the finance department and in conjunction with the review of the City's bond rating, longer term borrowing, and capital improvement plans.



### Water Operating Results

A comparative summary of the Water Utility's change in net position for the years ended December 31, 2021 and 2020 appears below:

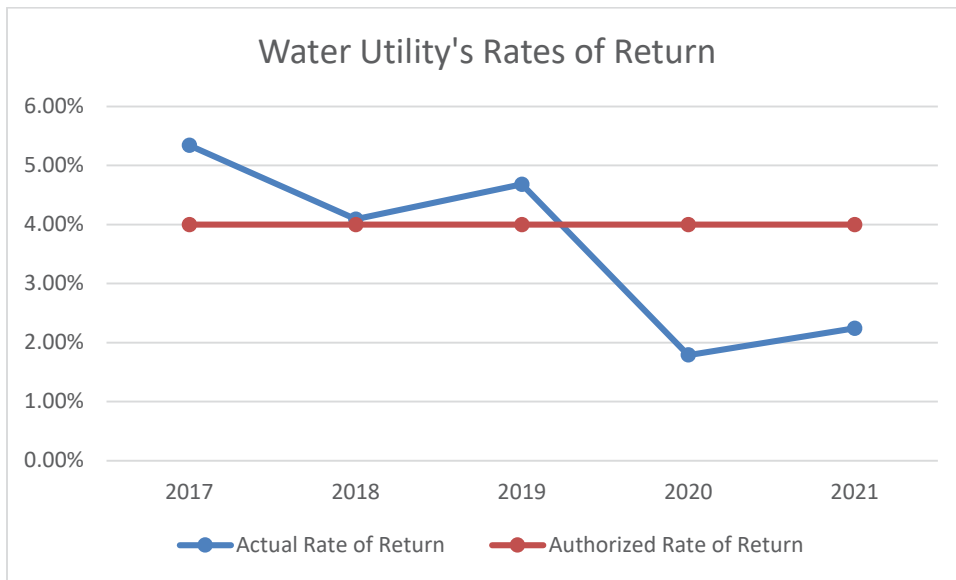
	2021	2020
Operating revenues		
Charges for services	\$ 6,834,997	\$ 6,877,342
Other	128,806	-
Total operating revenues	<u>6,963,803</u>	<u>6,877,342</u>
Operating expenses		
Operation and maintenance	4,207,469	4,041,524
Depreciation	2,059,931	2,106,234
Taxes	100,721	90,883
Total operating expenses	<u>6,368,121</u>	<u>6,238,641</u>
Net Operating Income	<u>595,682</u>	<u>638,701</u>
Nonoperating Revenues (Expenses)	(86,271)	495,163
Capital Contributions	267,055	393,998
Transfers out	<u>(958,589)</u>	<u>(903,948)</u>
Change in Net Position	<u>\$ (182,123)</u>	<u>\$ 623,914</u>

Rate of Return – The Public Service Commission of Wisconsin (PSC) determines rates charged to customers of the water utility by calculating a rate of return on the water utility’s average net rate base. Presented below is the calculation of the rates of return for 2021 and 2020 for the water utility based on the format used by the PSC. The PSC operating income differs from the above operating income by the following items:

- The PSC considers the property tax equivalent to be an operating expense while it is considered a transfer for financial reporting purposes.
- The PSC no longer allows the water utility to recover depreciation on contributed plan from current rates beginning in 2003; therefore, this depreciation expense is removed from the PSC operating income calculation.
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	<u>2021</u>	<u>2020</u>
Rate of Return	<u>2.24%</u>	<u>1.79%</u>

The current rate of return is appropriate for operational and capital requirements.



**Summary Comment:** The Utility should continue to review its capital improvement needs and consider whether a rate increase is potentially needed to support these capital improvement needs.



### Electric Operating Results

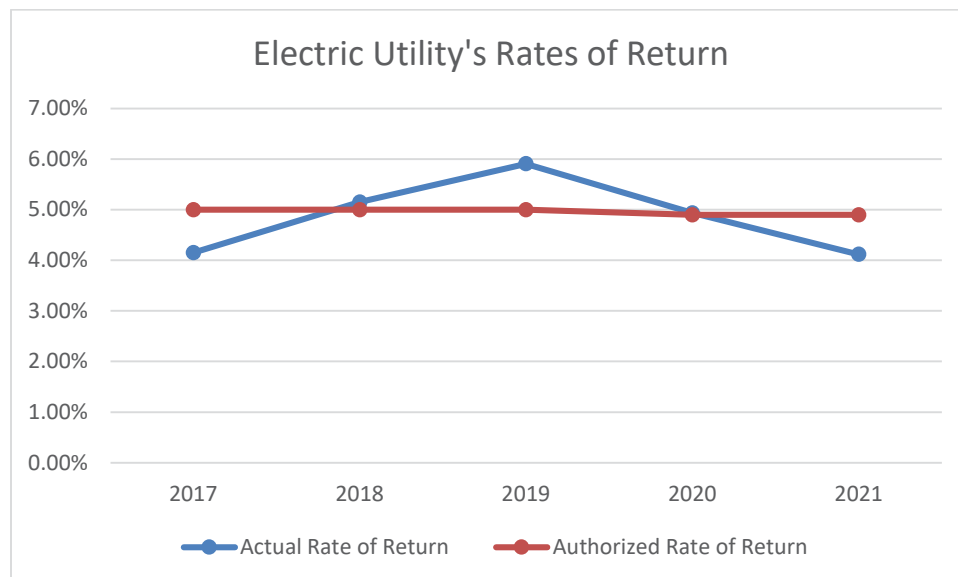
A comparative summary of the Electric Utility's change in net position for the years ended December 31, 2021 and 2020 appears below.

	2021	2020
Operating revenues		
Charges for services	\$ 62,453,107	\$ 59,495,040
Other	413,054	-
Total operating revenues	<u>62,866,161</u>	<u>59,495,040</u>
Operating expenses		
Operation and maintenance	55,112,109	51,570,312
Depreciation	3,442,146	3,968,289
Amortization of asset retirement obligation	858,000	858,000
Taxes	433,636	414,315
Total operating expenses	<u>59,845,891</u>	<u>56,810,916</u>
Net Operating Income	<u>3,020,270</u>	<u>2,684,124</u>
Nonoperating Revenues (Expenses)	1,068,529	2,646,060
Capital Contributions	1,053,298	132,264
Transfers out	<u>(2,913,524)</u>	<u>(2,913,899)</u>
Change in Net Position	<u>\$ 2,228,573</u>	<u>\$ 2,548,549</u>

Rate of Return – The Public Service Commission of Wisconsin (PSC) determines rates charged to customers of the electric utility by calculating a rate of return on the electric utility's average net rate base. Presented below is the calculation of the rates of return for 2021 and 2020 for the electric utility based on the format used by the PSC.

	2021	2020
Rate of Return	<u>4.12%</u>	<u>4.94%</u>

The current rate of return is appropriate for operational and capital requirements.



**Summary Comment:** The Utility should review its capital improvement needs and any forecasted operational changes while considering rate structures.

### Wastewater Operating Results

A comparative summary of the Wastewater Utility's change in net position for the years ended December 31, 2021 and 2020 appears below.

	2021	2020
Operating revenues		
Charges for services	\$ 7,930,705	\$ 7,537,279
Other	837	1,584
Total operating revenues	<u>7,931,542</u>	<u>7,538,863</u>
Operating expenses		
Operation and maintenance	4,536,495	4,296,025
Depreciation	<u>1,041,008</u>	<u>1,099,622</u>
Total operating expenses	<u>5,577,503</u>	<u>5,395,647</u>
Net Operating Income	<u>2,354,039</u>	<u>2,143,216</u>
Non-Operating Revenues (expenses)	(117,032)	(112,946)
Transfers out	<u>(27,339)</u>	<u>(26,399)</u>
Change in Net Position	<u>\$ 2,209,668</u>	<u>\$ 2,003,871</u>

Since the wastewater utility is not regulated by the PSC and the depreciation expense is a significant component of operating expenses, it is important to evaluate cash flows when evaluating the wastewater utility operating results. For the year ended December 31, 2021 and 2020, the cash generated by customer net revenues totaled \$3,444,958 and \$3,051,234, respectively.

### Closing

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

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

*KerberRose SC*

**KerberRose SC**  
**Certified Public Accountants**  
Green Bay, Wisconsin  
July 29, 2022

City of Manitowoc

Year End: December 31, 2021

Adjusting Journal Entries

Date: 1/1/2021 To 12/31/2021

Started By Prepared By Reviewed by Partner Review

AJE'S

GPITEL  
7/26/2022

KDOMMER  
7/29/2022

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
AJE01	12/31/2021	COMPENSATED ABSENCES PAYABLE	6300-00000-218400 SEWER	P-3, 3			-49,712.00		
AJE01	12/31/2021	SALARIES AND WAGES-REGULAR	6300-71100-511100 SEWER	P-3, 3		49,712.00			
AJE01	12/31/2021	COMPENSATED ABSENCES PAYABLE	6400-00000-218400 TRANS	P-3, 3			-4,094.00		
AJE01	12/31/2021	SALARIES AND WAGES-REGULAR	6400-36100-511100 TRANS	P-3, 3		4,094.00			
		To adjust compensated absences for business-type activities to actual.							