

**MANAGEMENT COMMUNICATIONS**

**CITY OF DE PERE, WISCONSIN**

**DECEMBER 31, 2016**

**CITY OF DE PERE, WISCONSIN**

December 31, 2016

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To the City Council  
City of De Pere  
De Pere, 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 De Pere, Wisconsin (the "City") for the year ended December 31, 2016. The City's financial statements, including our report thereon dated June 16, 2017, 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 and Government Auditing Standards

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.

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. However, providing an opinion on compliance with those provisions is not an objective of our audit.

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, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2016, 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 auditing 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 66 - 67 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be significant deficiencies:

Finding 2016-001 Preparation of Annual Financial Report  
Finding 2016-002 Adjustments to the City's Financial Records

These findings are described in detail in the schedule of findings and responses on pages 68 - 69 of the annual report.

The City's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### *Qualitative Aspects of Accounting Practices*

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. The significant accounting policies used by the City are described in Note A to the financial statements. As described in Note C.1 to the financial statements, the City changed accounting policies related to fair value measurement by adopting Statement of Governmental Accounting Standards Board (GASB) No. 72, *Fair Value Measurement and Application* in 2016. 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 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 accumulated sick leave is based upon analysis of the employees sick leave balance. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability (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 of resources in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the fair value of the investments is based on ending market values as of December 31, 2016 as reported by the investment managers. We evaluated the key factors and assumptions used in valuing the investments in determining that they are reasonable in relation to the consolidated financial statements taken as a whole.

Management's estimate of the other postemployment benefits is based on an actuarial report. We evaluated the key factors and assumptions used to develop the other postemployment benefits in determining that it is 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. The following material misstatements detected as a result of audit procedures were corrected by management:

- To redistribute debt proceeds of \$3,265,880 between City funds.
- To redistribute short term debt proceeds of \$275,000 and short term debt payments in the amount of \$147,000.
- To reclassify insurance proceeds received of \$124,982 from an expense to a revenue account.
- To record a capital lease for police equipment in the amount of \$75,600.
- To record prior year balance for GASB 68 pension asset and deferred outflows of \$352,641 in the City's proprietary funds.
- To record depreciation expense of \$596,281 in the Water Utility enterprise fund.
- To record capital contributions of \$183,344 in the Water Utility enterprise fund.
- To reverse previous year accounts payable of \$161,648 in the capital projects fund.
- To adjust long term receivable and interest income in the Wastewater Treatment in the amount of \$71,121.
- To record capital assets of \$100,237 in the Stormwater Utility enterprise fund.
- To reduce expenses in the capital projects fund by \$212,377 for a voided check that wasn't recorded until 2017.
- To redistribute expenditures from capital project fund to TID #6 in the amount of \$92,509.
- To record receivable in capital project fund for items due from TID #6 escrow for items paid for by capital project fund that were approved to be paid for by escrow agreement.

#### *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 16, 2017. 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.

In addition, during our audit, we noted certain other matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these matters in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized in the comments and observations section of this report.

### *Other Matters*

We applied certain limited procedures to the management discussion and analysis and the schedules related to pensions and other postemployment 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 accompany the financial statements but are 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 information and use of the City Council, and management of City of De Pere 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 16, 2017

**SUMMARY FINANCIAL INFORMATION  
GENERAL CITY**

**1. Governmental Fund Balances**

Presented below is a summary of the City's governmental fund balances on December 31, 2016 and 2015. This information is provided for assessing financial results for 2016 and for indicating financial resources available at the start of the 2017 budget year.

	12/31/16	12/31/15
<b>General Fund</b>		
Nonspendable for		
Inventories and prepaid items	\$ 233,692	\$ 222,723
Special assessments held by County	97,412	226,689
Advances to other funds	60,000	60,000
Restricted for		
Recreation scholarship	22,624	21,726
Fire UTV fund	19,850	-
Property tax relief and economic development	1,300,348	1,249,256
Committed for		
Subsequent years' expenditures	148,695	86,614
Unassigned	5,544,762	5,259,140
<b>Total General Fund Balance</b>	<b>7,427,383</b>	<b>7,126,148</b>
<b>Debt Service Fund</b>		
Restricted for debt service	710,514	629,584
<b>Special Revenue Funds</b>		
Restricted for		
Loans	1,097,495	1,031,729
Park land acquisition	91,337	97,967
Committed for		
Subsequent years' expenditures		
Dog Park	5,754	17,527
Riverwalk pier	31,670	112,513
Unassigned		
Cable Access	(127,250)	(66,331)
<b>Total Special Revenue Funds</b>	<b>1,099,006</b>	<b>1,193,405</b>
<b>Capital Projects Funds</b>		
Restricted for		
TID No.5	166,245	6,357
TID No.6	-	2,606,409
TID No.7	777,771	683,272
TID No.8	284,518	1,305,334
TID No.10	21,188	-
TID No.12	642,703	-
Committed for		
Subsequent years' expenditures		
Public Improvements	593,343	924,692
Capital Equipment	93,528	93,528
Community Center	3,779	2,579
Police/Fire Expansion	2,932	2,932
Unassigned		
TID No.6	(1,332,299)	-
TID No.9	(256,778)	(149,591)
TID No.10	-	(9,345)
TID No.11	(15,350)	(6,883)
TID No.12	-	(7,040)
<b>Total Capital Projects Funds</b>	<b>981,580</b>	<b>5,452,244</b>
<b>Total Governmental Fund Balances</b>	<b>\$ 10,218,483</b>	<b>\$ 14,401,381</b>

## 1. Governmental Fund Balances (Continued)

Comments on specific accounts and funds included in the above governmental funds are presented in the following comments.

### General Fund

In total, the City's general fund increased \$301,235 in 2016. The main reason for this large increase was from expenditures under budget in total by \$358,899.

Overall, the City's general fund balance continues to remain in stable financial condition entering the 2017 budget year. Additional information on various components of the City's general fund balance follows:

### General Fund Minimum Fund Balance Policy

The City Council adopted a minimum unassigned general fund balance policy of 25% of the subsequent year General Fund budgeted expenditures. The purpose of the minimum fund balance amount is to ensure there are available cash funds for operating purposes and to segregate that portion of the general fund that is not available for current transfer or appropriation. On December 31, 2016, the City's unassigned general fund balance totaled \$5,544,762 and was higher than 25% of the 2017 budgeted expenditures which totaled \$4,239,062. Furthermore, the Council approved a policy whereby the unassigned reserve account should maintain a balance between 25% and 35% of the subsequent year General Fund budgeted expenditures; 35% of 2017 budgeted expenditures amounted to \$5,934,687.

### Debt Service Fund

At December 31, 2016, the City has available resources of \$710,514 in its debt service fund of which the entire balance is restricted to retire debt.

## 2. Tax Incremental Districts

The City maintains separate accounting funds for each Tax Incremental Districts (TID) created in accordance with Section 66.1105 of the Wisconsin Statutes. At the time the Districts were created, the property tax base within each District was "frozen" and increment taxes resulting from increases to the property tax base are used to finance District improvements, including principal and interest on long-term debt issued by the City to finance such improvements. Information on the City's eight tax incremental districts on December 31, 2016 is presented below:

	TID 5	TID 6	TID 7	TID 8	TID 9	TID 10	TID 11	TID 12
Date created	8/27/1996	3/3/1998	10/6/2006	8/21/2007	8/7/2012	8/7/2012	9/1/2015	9/1/2015
Latest termination year	2023	2021	2033	2027	2039	2032	2035	2035
Location	West Side Downtown	West Side Industrial Park	East Downtown Business District	West Side Commercial Development	West Downtown Business District	East Side Industrial Park	West Side Industrial Park	West Side Industrial Park
Status	Recipient	Donor	-	-	-	-	-	-
Fund balance at year end	\$ 166,245	\$ (1,332,299)	\$ 777,771	\$ 284,518	\$ (256,778)	\$ 21,188	\$ (15,350)	\$ 642,703
Net unreimbursed cost	\$ 4,107,490	\$ 3,486,789	\$ 3,152,946	\$ 2,877,878	\$ 787,969	\$ 884,148	\$ 15,350	\$ (642,703)
2016 Tax increment	\$ 818,914	\$ 1,788,033	\$ 58,043	\$ 191,787	\$ 29,984	\$ 123,951	\$ -	\$ -
2017 Tax increment	\$ 921,139	\$ 1,905,735	\$ 80,986	\$ 253,857	\$ 73,316	\$ 124,947	\$ -	\$ -
Outstanding debt due	\$ 1,347,833	\$ 6,935,363	\$ 3,377,884	\$ 2,967,634	\$ 705,000	\$ 1,085,000	\$ -	\$ -
Advances from (to) City	\$ 2,925,902	\$ (4,780,873)	\$ 552,833	\$ 194,762	\$ (173,809)	\$ (179,664)	\$ -	\$ -

Wisconsin Statutes require periodic compliance audits of tax incremental districts to be completed over the life of the TID.



### 3. Employees Medical Self-Insurance Funds

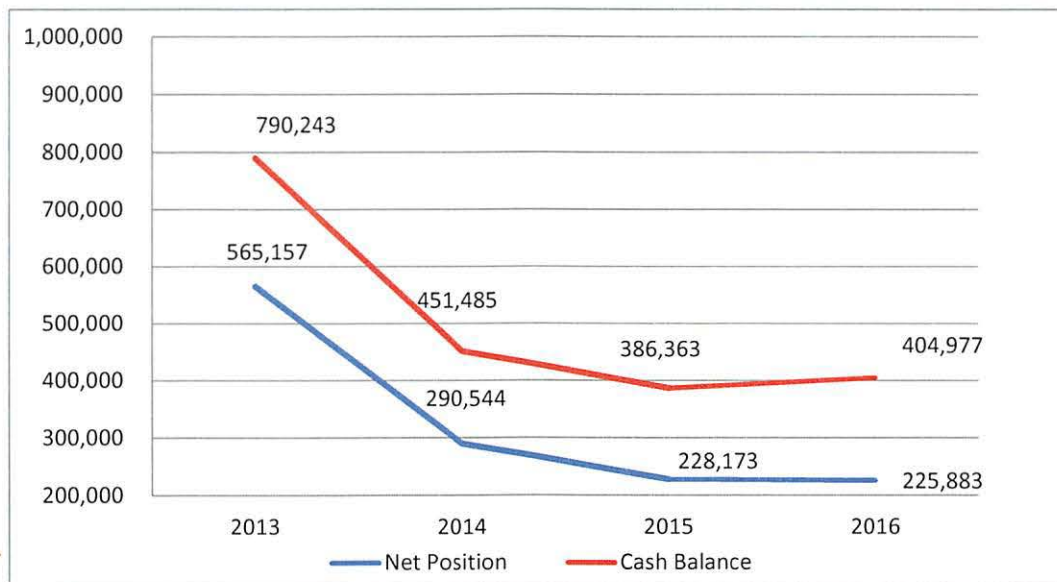
The City utilizes two separate self-insurance internal service funds to account for health and dental claims of City employees. The funds are financed from monthly insurance premiums charged to City employees. During 2016 and in prior years the monthly health insurance premiums were generally financed at 85% by the City with City employees contributing the remaining 15%. Presented below is a summary of each fund's financial transactions for 2016 including comparative totals of the health and dental funds for 2015.

	Health Self-Insurance		Dental Self-Insurance	
	2016	2015	2016	2015
Revenues				
Charges for employees medical and dental insurance premiums	\$ 2,664,623	\$ 2,727,199	\$ 144,455	\$ 135,863
Expenses				
Employees health and dental claims	2,163,855	2,209,223	142,465	140,651
Administrative fees	503,611	580,523	16,284	9,657
Total Expenses	2,667,466	2,789,746	158,749	150,308
Operating Loss	(2,843)	(62,547)	(14,294)	(14,445)
Nonoperating Revenues				
Interest revenue	553	176	-	1
Change in Net Position	(2,290)	(62,371)	(14,294)	(14,444)
Net Position - January 1	228,173	290,544	30,899	45,353
Net Position - December 31	\$ 225,883	\$ 228,173	\$ 16,605	\$ 30,909

Specific comments applicable to the above self-insurance funds follow:

The "key" component of an internal service fund is operating income since operating revenues should approximate operating expenses on an annual basis. For 2016, the health fund showed operating loss of \$2,843 compared to an operating loss of \$62,547 in 2015. The dental insurance fund showed an operating loss of \$14,294 in 2016 compared to an operating loss of \$14,445 in 2015. The Health Insurance Net Position at year end is 10.4% of health claims for 2016, which is below the recommended amount for self-insurance funds while the dental self-insurance funds have consistently lost \$14 thousand the past two years, which will result in a very small net position balance at the end of next year without changes in revenues.

Below is a chart illustrating the decrease in net position and cash in the Health Self-Insurance fund over the past 4 years, we recommend the City analyze current charges to determine if current rates are sufficient to meet operations expenses and cash flow needs.



In accordance with generally accepted accounting principles, the Water Utility's financial transactions are recorded in an enterprise fund on the City's financial statements. Enterprise fund accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

## WATER UTILITY

### Income Account

The Water Utility reported an increase in net position of \$768,334 for the year ended December 31, 2016 compared to an increase of \$586,092 for the year ended December 31, 2015.

	2016	2015
Operating Revenues		
Metered sales	\$ 4,416,609	\$ 4,532,808
Fire protection	1,394,659	1,383,526
Other	384,060	371,377
Total Operating Revenues	<u>6,195,328</u>	<u>6,287,711</u>
Operating Expenses		
Operation and maintenance	4,507,771	4,575,374
Depreciation	526,434	542,510
Taxes	38,330	46,350
Total Operating Expenses	<u>5,072,535</u>	<u>5,164,234</u>
Operating Income	<u>1,122,793</u>	<u>1,123,477</u>
Nonoperating Revenues (Expenses)		
Interest revenue	829	-
Interest and fiscal charges	(85,742)	(88,565)
Total Nonoperating Revenues (Expenses)	<u>(84,913)</u>	<u>(88,565)</u>
Income before Contributions and Transfers	1,037,880	1,034,912
Capital contributions	183,344	-
Transfers out	<u>(452,890)</u>	<u>(448,820)</u>
Change in Net Position	<u>\$ 768,334</u>	<u>\$ 586,092</u>

The last water rate increase implemented in 2011 established a rate of return of 6.5%. In 2016, the City's rate of return calculated to 5.07%.

## WASTEWATER UTILITY

Financial analyses and comments pertaining to the operations of the Wastewater Utility follow:

### Income Account

The Wastewater Utility reported an increase in net position of \$1,091,507 for the year ended December 31, 2016 compared to an increase of \$2,017,743 for the year ended December 31, 2015.

	2016	2015
Operating Revenues		
Measured sales	\$ 5,729,527	\$ 5,207,936
Other	3,197,676	3,405,131
Total Operating Revenues	<u>8,927,203</u>	<u>8,613,067</u>
Operating Expenses		
Operation and maintenance	6,948,383	7,200,607
Depreciation	701,892	673,497
Total Operating Expenses	<u>7,650,275</u>	<u>7,874,104</u>
Operating Income	1,276,928	738,963
Nonoperating Expenses		
Interest and fiscal charges	<u>(45,772)</u>	<u>(31,514)</u>
Income before Contributions and Transfers	1,231,156	707,449
Capital contributions	132,049	1,582,009
Transfers out	<u>(271,698)</u>	<u>(271,715)</u>
Change in Net Position	<u>\$ 1,091,507</u>	<u>\$ 2,017,743</u>

As of December 31, 2016 the Wastewater Utility owed the general fund \$509,237 for operating purposes, which was a decrease of \$561,380 from the amount owed a year earlier. Below is a summarized cash flow for the year ended December 31, 2016 for the Wastewater Utility:

	2016	2015
Cash Flows from Operating Activities	\$ 1,440,771	\$ 1,229,139
Transfer out to the general fund	<u>(271,698)</u>	<u>(271,715)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(1,099,782)	(3,101,087)
Proceeds of long-term debt	1,007,500	2,015,000
Debt premium from proceeds, net of issuance costs	20,224	69,276
Principal payments on long-term debt	(340,000)	-
Interest payments on long-term debt	(45,635)	-
Net Cash Flows from Capital and Related Financing Activities	<u>(457,693)</u>	<u>(1,016,811)</u>
Change in Cash prior to interfund cash balance adjustment	711,380	(59,387)
Change in amount due to general fund	(561,380)	59,387
Net Change in Cash for year ended December 31	<u>\$ 150,000</u>	<u>\$ -</u>

The City has increased rates each year with the last rate increase implemented in 2016, effective in the 1<sup>st</sup> Quarter of 2017.

## STORMWATER UTILITY

Financial analyses and comments pertaining to the operations of the Stormwater Utility follow:

### Income Account

The Stormwater Utility reported an increase in net position of \$1,040,094 for the year ended December 31, 2016 compared to an increase of \$425,809 for the year ended December 31, 2015.

	2016	2015
Operating Revenues		
Charges for services	\$ 1,421,398	\$ 1,321,246
Operating Expenses		
Operation and maintenance	902,654	540,934
Depreciation	392,759	354,503
Total Operating Expenses	1,295,413	895,437
Operating Income before Contributions	125,985	425,809
Capital contributions	914,109	-
Change in Net Position	\$ 1,040,094	\$ 425,809

At year end, available cash of the Stormwater Utility totaled \$1,048,763. The Stormwater Utility purchased \$742,415 of capital assets in 2016.

## **STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS**

The following comments and observations have been discussed in prior year management letters. Although progress has been made, the following recommendations have not yet been fully implemented. Since complete implementation of the recommendations has not been made, we recommend the City develop a specific timetable for implementation, including identifying persons responsible for implementation, for each recommendation. Presented below is a summary of prior year comments along with any current status.

### **1. Development of Capital Assets Records**

The City purchased capital software in 2015, which was implemented for the year 2015. For the year ended December 31, 2016 the City entered assets into the software during the year and in preparation for the audit. During our audit procedures we noted nearly \$1.2 million of capital assets that were not initially recorded as capital asset additions. We recommend that the City review all capital expenditures in the City's general ledger at year end to verify all capital asset additions are included in the final reports provided to the auditors.

**MANAGEMENT'S RESPONSE:** The City's Finance and Clerk-Treasurer departments will review all capital expenditures quarterly in 2017 in the City's general ledger accounts to verify all capital asset additions are included in the final reports provided to the auditors.

### **2. Enter Manual Reconciling Adjustments into the City's Bank Reconciliation Software**

In 2016, the City reviewed their bank reconciliation process and attempted to clear reconciling items and post any needed adjustments on a monthly basis. During the audit for year ended December 31, 2016, we reviewed the City's bank reconciliations and noted that the City Treasurer reviewed monthly bank statements, furthermore we noted the same type of manual reconciling items are being noted during reconciliations, as well as amounts being carried forward from previous years. We recommend that the City clear reconciling items and post payables and receivables on a daily basis using a software update.

**MANAGEMENT'S RESPONSE:** The City's Finance and Clerk-Treasurer departments will review the bank reconciliations and clear reconciling items and old outstanding checks that need to be adjusted out of the reconciliation on a monthly basis in 2017.

### **3. Reconciliation of Special Assessment Records**

A recommendation was made in the previous year to reconcile special assessment receivables and revenue on a monthly basis. During 2016 the special assessments records were reconciled prior to the audit began, but were not made monthly. We still recommend that special assessments records should be reconciled on a monthly basis.

**MANAGEMENT'S RESPONSE:** The City's Finance department will reconcile the special assessments records to the general ledger on a monthly basis in 2017.

### **4. Developing Cash Flow Analyses for the Water and Wastewater Utilities with the Annual Budget**

This recommendation was not implemented with the 2016 or 2017 budget. The plans are to develop cash flow analyses with the 2018 budget.

**MANAGEMENT'S RESPONSE:** Cash flow analyses will be included in the water and wastewater utility in the 2018 budget.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

### **1. Payroll Procedures for Accrued Sick and Vacation Leave**

The City's payroll department currently prepares a worksheet for accrued leave balances at year end which is incorporated into the City's annual financial statements. In testing this spreadsheet, we noted that City employees accrue their vacation leave balances in various ways, as well as have different rules regarding the carryover balances allowed to be rolled into the new fiscal year.

The accrued leave balances can be significant and, with the different rules on earning and carrying over balances, we recommend an independent review of this spreadsheet on an annual basis by the human resources department would increase controls over accrued leave. The City has already segregated certain functions between the payroll and human resources department, with the human resources department ultimately responsible for interpretation and management of accrued leave policies.

Furthermore, we recommend that when an employee retires or terminates employment, the human resources department also review the payout calculation. Currently, the payroll clerk calculates and the finance director reviews. For internal control purposes, the inclusion of and calculation of the various pay amounts should be reviewed by the human resources department as well. The review should include a sign-off of approval.

**MANAGEMENT'S RESPONSE:** The City's Human Resources department will independently annually review the end of year accrued leave balance worksheet prepared by the Finance department for the audit and also review each of the Finance department payout calculations for retiring or terminated employees commencing with the June 23<sup>rd</sup> payroll.

## **2. 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.

The new standards are effective for financial statements for OPEB plans for fiscal years beginning after June 15, 2016 and for employers for fiscal years beginning after June 15, 2017. We recommend that the City evaluate impact of the new standards with your actuary, and determine an implementation strategy to minimize your costs while ensuring adequate communication of the impact of these changes will have on your financial statements. As you develop your implementation strategy, you should evaluate the following:

- Do you anticipate any changes in benefits? If yes, you should approve benefit changes prior to implementation, as any changes in benefits in the future are treated as a current year activity.
- What is your valuation measurement date? You can roll back to a valuation date 12 months prior to year end, allowing you to complete your actuarial valuation prior to year end or you can roll forward to your reporting date, requiring your actuarial valuation to be completed after year end but before you anticipate issuance of your financial statements.

**MANAGEMENT'S RESPONSE:** The City's Human Resources and Finance departments will evaluate the new standards with a contracted actuary to assure the new pronouncements for its OPEB liability to be included in the City's December 31<sup>st</sup> 2017 financial statements.

### **3. Comments and Observations from Capital Project Funds Review**

The City, as part of our annual audit contract, identifies an area where we perform a more detailed review of specific financial procedures. This year, we reviewed the City's procedures over financial management of the City's capital project funds. Our review identified the following observations along with recommendations to improve efficiency and effectiveness of managing your capital project funds:

1. The City maintains two capital project funds, public improvements and capital equipment. The City currently budgets a levy for the capital equipment fund; however, the levy is subsequently transferred to the City's general fund to fund capital equipment purchases. While the capital project fund exists, it is not being used to track capital purchases throughout the year as currently designed; therefore, we recommend the City consider the following options:
  - Budget and record capital equipment purchases in the capital equipment fund rather than the general fund. This allows the City to more easily execute its capital improvement plan, and allows City management to more closely monitor capital purchases to ensure the levy is not used for operating purchases. Annually, unspent levy could be reallocated to other projects or carried forward for specific purposes with appropriate Council approval.
  - Record the property tax levy currently being allocated to the capital equipment fund in the general fund and transferring available fund balance in the capital equipment fund to other funds.
2. The account structure of capital project funds is not designed by function or project for capital expenditures. Accordingly, our review noted many journal entries to reclassify project costs to a general ledger account where corresponding costs were recorded.

We recommend that the City establish account structures within its capital project funds by function and department, and utilize project numbers to track overall costs by project. Having a properly designed account structure by function will allow the City to more easily prepare its annual financial report, Form C, to the Wisconsin Department of Revenue and ensure all highway, storm sewer and police costs are properly reported to maximize the City's general transportation aids. Furthermore, the City should communicate the account structure to the appropriate personnel to ensure costs are reported in the proper function throughout the year to minimize the number of year end reclassification entries. This is critical to improve the tracking of specific projects and budget appropriation throughout the year, to allow management to make decisions on the status of each project. In addition, projects funded by debt proceeds could result in an IRS audit to ensure appropriate spenddown and tracking of project costs, which a properly designed account structure and funding source would be very beneficial.

3. The City incurs expenditures for various infrastructure projects each year. The infrastructure projects are generally funded with long-term debt proceeds and often include street construction and reconstruction, water main, sanitary sewer, and storm sewer infrastructure costs. Also, some of the projects or part of the projects may be eligible project expenditures in one of City's tax incremental districts. For many of the projects, the City allocates a portion of the engineering department's cost to arrive at a total project cost for accounting purposes.

The City generally records progress payments on a construction account to one account on the City records. At a subsequent date, the project costs are reallocated, as appropriate, to the streets, water utility, sanitary sewer utility, storm sewer utility and/or tax incremental district, if applicable. During our audit, we noted that journal entries for the allocation of these expenditures were not completed often until after year end. During the current year, the finance and engineering departments did not meet until May of 2017, and final entries were still being made as of June, while the audit was being completed. We do not believe delays in allocating project costs allows sufficient time to ensure the costs are allocated accurately, and therefore requires additional audit time and often additional audit entries. We also noted that they were other expenditures recorded in the capital projects fund that were not included on the worksheet provided by the engineering department due to smaller expenditures being recorded in the general ledger that were not related to the construction contract.



### **3. Comments and Observations from Capital Project Funds Review (Continued)**

Until this reallocation of construction costs occurs, the City does not know the true cash spent by general capital or individual enterprise fund, often resulting in significant cash changes after year end, and after the subsequent year budget has been approved and potential bonding projects established. In our opinion, this reduces the City's ability to manage projects or identify projects which may be exceeding the approved budget.

We therefore recommend the following:

- Each construction contract should be assigned a project number, as previously discussed.
  - The engineering department should allocate the projects between the general capital and utility operations as incurred, based on the contractor invoices. Smaller invoices related to the project could be charged to general capital, pending a year end project review.
  - In late February or early March of the subsequent year, the engineering and finance departments should meet to reconcile project expenditures, record any retainage due to an of the contractors on projects that have been completed, and potentially reallocate costs based on a final review. This should be done no later than March 15th to allow the City to file the Water Utility's PSC Report by April 1st.
4. Engineering costs are charged by the City's general fund to the capital projects fund based on an allocation of time spent by the City's engineering departments on the projects during the year. If any of the projects completed during the year are for any of the City's Tax Incremental Districts, the City charges the District an additional 15% of engineering costs, and the costs previously coded to the capital project fund is not reduced.

It is important to have accurate and reasonable time allocations which are supportable during an audit of an individual Tax Increment District; accordingly, we recommend that the journal entry to charge the engineering costs to the capital projects and individual Tax Incremental District be completed simultaneously to avoid potential allocation issues in the future.

5. During our review of the fund we noted several costs that should have been recorded in different funds as well as small expense items that were undetermined if they were capital related or approved in the budget process to be paid from the fund. In one instance, we noted costs paid for by the capital projects fund which should have been paid by an escrow established for District costs after the construction period ended.

We believe establishing projects would allow the City to more closely manage project costs, and ensure only capital related and approved costs are included in the fund. Therefore, we recommend the following:

- On a quarterly basis, the finance director should review capital project fund expenditures for reasonableness to the City's approved capital improvement plan. Adjustments, if necessary, can be made to reclassify costs based on this review.
- At year end, the City should compile a report for the City Administrator, Finance Committee, and department heads that reflects projects costs incurred compared to the approved budget. This report should include amounts in fund balance restricted for specific projects that have not been completed at year end and any amounts that are currently uncommitted at year end, due to projects that have come in under budget or perhaps delayed. This report would allow City management to evaluate the status of the capital project funds at year end to potentially reallocate available resources to specific projects. In our opinion, this is a critical monitoring function which ensures the capital project funds are being managed and utilized in the most efficient and effective manner, while isolating projects which may have been under funded, to evaluate the specific reasons this occurred, and what resources would be reallocated.

**MANAGEMENT'S RESPONSE:** The City's Finance and Engineering departments will meet and plan during 2017 to make sure that the Public Works contracts and related activity is allocated quarterly starting with June 30, 2017 between the various City funds in the City's general ledger. We will also prepare a year-end report to allow City management to evaluate the status of the capital projects.

## **APPENDIX**

# CITY OF DE PERE

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Web: <http://de-pere.org>



June 16, 2017

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 De Pere, (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, 2016, 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).

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 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 16, 2017, 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 October 20, 2016, 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. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. 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.
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 identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
20. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
21. 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.
22. 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.
23. 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.
24. 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.
25. 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.

26. We have no knowledge of 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. As part of your audit, you assisted with preparation of the financial statements and related notes. 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.
28. 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 for utility assets pledged as collateral for the revenue bonds.
29. 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.
30. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
31. 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.
32. The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
33. 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.
34. 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.
35. Provisions for uncollectible receivables have been properly identified and recorded.
36. 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.
37. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
38. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
39. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
40. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
41. Joint ventures, jointly governed organizations, and other related organizations have been properly disclosed in the financial statements.
42. 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.

43. 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.
44. 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.
45. We acknowledge our responsibility for presenting the nonmajor fund combining statements, individual fund statements, and supporting schedules (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.
46. 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.
47. 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.
48. 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.
49. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
50. 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.
51. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
52. 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.
53. We do not plan to make frequent amendments to our pension or other post-retirement benefit plans.

54. We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statements No. 74, *Financial Reporting for Post-employment Benefit Plans other than Pension Plans* and No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, as discussed in Note D.9. 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.
55. 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.

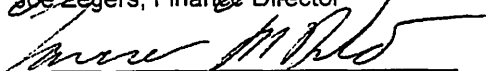
Signed:

  
Joe Zegers, Finance Director

Signed:

  
Shana Ledvina, Clerk-Treasurer

Reviewed By:

  
Larry Delo, City Administrator