

**MANAGEMENT COMMUNICATIONS**

**CITY OF DE PERE, WISCONSIN**

**DECEMBER 31, 2015**

**CITY OF DE PERE, WISCONSIN**

December 31, 2015

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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, 2015. The City's financial statements, including our report thereon dated July 29, 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

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. 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, 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 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 69 - 70 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 2015-001 Preparation of Annual Financial Report  
Finding 2015-002 Adjustments to the City's Financial Records

These findings are described in detail in the schedule of findings and responses on pages 71 - 72 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 D.9 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 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 take as a whole.

Management's estimate of the net pension asset and related deferred outflows 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.

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:

- Redistributed expenditures in the Stormwater Utility to capital assets in the amount of \$355,171.
- Reallocated debt premium between the debt service fund and TID #7 in the amount of \$285,231.
- Redistributed expenditures in the Wastewater Utility in the amount of \$4,238,029, and record depreciation expense of \$121,748.

#### *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 July 29, 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.

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, the schedule of funding progress and the schedule of employer contributions, which is 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 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  
July 29, 2016

**SUMMARY FINANCIAL INFORMATION  
GENERAL CITY**

**1. Governmental Fund Balances**

Presented below is a summary of the City's governmental fund balances on December 31, 2015 and 2014. This information is provided for 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
<b>General Fund</b>		
Nonspendable for		
Inventories and prepaid items	\$ 222,723	\$ 289,045
Special assessments held by County	226,689	79,362
Advances to other funds	60,000	60,000
Restricted for		
Recreation scholarship	21,726	20,427
Property tax relief and economic development	1,249,256	-
Committed for		
Subsequent years' expenditures	86,614	106,371
Unassigned	5,259,140	5,178,764
<b>Total General Fund Balance</b>	<b>7,126,148</b>	<b>5,733,969</b>
<b>Debt Service Fund</b>		
Restricted for debt service	629,584	2,618,568
<b>Special Revenue Funds</b>		
Restricted for		
Loans	1,031,729	1,258,617
Park land acquisition	97,967	83,102
Committed for		
Subsequent years' expenditures		
Dog Park	17,527	15,239
Riverwalk Pier	112,513	50,377
Unassigned		
Cable Access	(66,331)	(18,592)
<b>Total Special Revenue Funds</b>	<b>1,193,405</b>	<b>1,388,743</b>
<b>Capital Projects Funds</b>		
Restricted for		
TID No.5	6,357	-
TID No.6	2,606,409	641,328
TID No.7	683,272	1,144,217
TID No.8	1,305,334	1,214,078
TID No.10	-	65,449
Committed for		
Subsequent years' expenditures		
Public Improvements	924,692	2,380,932
Capital Equipment	93,528	93,528
Community Center	2,579	3,672
Police/Fire Expansion	2,932	2,932
Unassigned		
TID No.5	-	(109,714)
TID No.9	(149,591)	(69,591)
TID No.10	(9,345)	-
TID No.11	(6,883)	-
TID No.12	(7,040)	-
<b>Total Capital Projects Funds</b>	<b>5,452,244</b>	<b>5,366,831</b>
<b>Total Governmental Fund Balances</b>	<b>\$ 14,401,381</b>	<b>\$ 15,108,111</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 \$1,392,179 in 2015. The main reason for this large increase was from the receipt of \$1,249,376 of Excess Stadium District Sales Tax.

Overall, the City's general fund balance continues to remain in stable financial condition entering the 2015 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, 2015, the City's unassigned general fund balance totaled \$5,259,140 and was higher than 25% of the 2016 budgeted expenditures which totaled \$4,184,717. 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 2016 budgeted expenditures amounted to \$5,858,603.

### Debt Service Fund

At December 31, 2015, the City has available resources of \$629,584 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, 2015 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	\$ 6,357	\$ 2,606,409	\$ 683,272	\$ 1,305,334	\$ (149,591)	\$ (9,345)	\$ (6,883)	\$ (7,040)
Net unreimbursed cost	\$ 4,854,309	\$ 1,090,461	\$ 2,487,920	\$ 2,084,000	\$ 790,782	\$ 459,681	\$ 6,883	\$ 7,040
2015 Tax increment	\$ 859,976	\$ 1,792,174	\$ -	\$ 221,328	\$ 38,732	\$ 55,554	\$ -	\$ -
2016 Tax increment	\$ 819,914	\$ 1,837,313	\$ 58,043	\$ 191,787	\$ 29,984	\$ 123,551	\$ -	\$ -
Outstanding debt due	\$ 1,866,298	\$ 8,404,369	\$ 2,553,359	\$ 3,129,572	\$ 750,000	\$ 565,000	\$ -	\$ -
Advances from (to) City	\$ 4,860,666	\$ (4,633,214)	\$ 683,272	\$ 259,762	\$ 108,809	\$ 114,664	\$ -	\$ -

Wisconsin Statutes require periodic compliance audits of tax incremental districts to be completed over the life of the TID. Audits of TID 5 and TID 6 are scheduled to be completed later this year.



### 3. Employees Medical Self-Insurance Funds

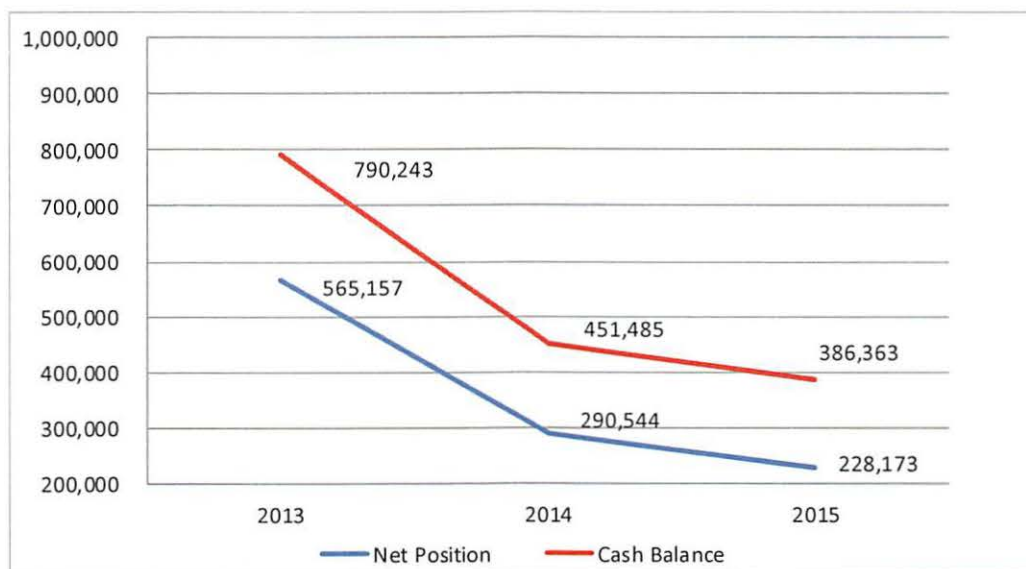
The City utilizes two separate self-insurance internal service funds to account for health and dental claims of City employees. The funds are financed from monthly insurance premiums charged to City employees. During 2015 and in prior years the monthly health insurance premiums were generally financed at 85% by the City with City employees contributing the remaining 15%. Presented below is a summary of each fund's financial transactions for 2015 including comparative totals of the health and dental funds for 2014.

	Health Self-Insurance		Dental Self-Insurance	
	2015	2014	2015	2014
Revenues				
Charges for employees medical and dental insurance premiums	\$ 2,727,199	\$ 2,548,698	\$ 135,863	\$ 126,036
Expenses				
Employees health and dental claims	2,209,223	2,182,003	140,651	120,101
Administrative fees	580,523	641,420	9,657	7,662
Total Expenses	2,789,746	2,823,423	150,308	127,763
Operating Income (Loss)	(62,547)	(274,725)	(14,445)	(1,727)
Nonoperating Revenues				
Interest revenue	176	112	1	-
Change in Net Position	(62,371)	(274,613)	(14,444)	(1,727)
Net Position - January 1	290,544	565,157	45,353	47,080
Net Position - December 31	\$ 228,173	\$ 290,544	\$ 30,909	\$ 45,353

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 2015, the health fund showed operating loss of \$62,547 compared to an operating loss of \$274,725 in 2014. The dental insurance fund showed an operating loss of \$14,445 in 2015 compared to an operating income of \$1,727 in 2014.

Below is a chart illustrating the decrease in fund balance and cash in the Health Self-Insurance fund over the past 3 years, we recommend the City analyze current charges to determine if current rates are sufficient to meet operations expenses and cash flow needs.



## WATER UTILITY

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.

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

### **Income Account**

The Water Utility reported an increase in net position of \$586,092 for the year ended December 31, 2015 compared to an increase of \$347,497 for the year ended December 31, 2014.

	2015	2014
Operating Revenues		
Metered sales	\$ 4,532,808	\$ 4,428,939
Fire protection	1,383,526	1,370,657
Other	371,377	346,307
Total Operating Revenues	<u>6,287,711</u>	<u>6,145,903</u>
Operating Expenses		
Operation and maintenance	4,575,374	4,652,458
Depreciation	542,510	560,434
Taxes	46,350	49,076
Total Operating Expenses	<u>5,164,234</u>	<u>5,261,968</u>
Operating Income	<u>1,123,477</u>	<u>883,935</u>
Nonoperating Revenues (Expenses)		
Interest and fiscal charges	<u>(88,565)</u>	<u>(99,108)</u>
Income before Contributions and Transfers	1,034,912	784,827
Transfers out	<u>(448,820)</u>	<u>(437,330)</u>
Change in Net Position	<u>\$ 586,092</u>	<u>\$ 347,497</u>

The last water rate increase implemented in 2011 established a rate of return of 6.5%. In 2015, the City's rate of return calculated to 5.44%. Although the Water Utility has been able to generate a positive rate of return, the present cash balance is overdrawn at year end. This is due to the cost of replacing all water meters over the past three years. The City intends to borrow for the meter purchases in 2016 and reimburse the Water Utility.

## WASTEWATER UTILITY

In accordance with generally accepted accounting principles, the Wastewater 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.

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 \$2,017,743 for the year ended December 31, 2015 compared to an increase of \$332,174 for the year ended December 31, 2014.

	2015	2014
Operating Revenues		
Measured sales	\$ 5,207,936	\$ 4,755,100
Other	3,405,131	3,292,943
Total Operating Revenues	<u>8,613,067</u>	<u>8,048,043</u>
Operating Expenses		
Operation and maintenance	7,200,607	6,900,026
Depreciation	673,497	546,376
Total Operating Expenses	<u>7,874,104</u>	<u>7,446,402</u>
Operating Income	738,963	601,641
Nonoperating Revenues		
Interest and fiscal charges	<u>(31,514)</u>	<u>-</u>
Income before Contributions and Transfers	707,449	601,641
Capital contributions	1,582,009	-
Transfers out	<u>(271,715)</u>	<u>(269,467)</u>
Change in Net Position	<u><u>\$ 2,017,743</u></u>	<u><u>\$ 332,174</u></u>

As of December 31, 2015 the Wastewater Utility owed the general fund \$1,220,617 for operating purposes, which was an increase of \$209,387 from the amount owed a year earlier. The primary reason for the amount due to the general fund is the cost of replacing water meters, of which 50% was charged to the wastewater utility. The City intends to borrow for the meter purchases in 2016 and reimburse the wastewater utility.

The City has increased rates each year with the last rate increase implemented in 2015, effective in the 1<sup>st</sup> Quarter of 2016.

## 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 \$425,809 for the year ended December 31, 2015 compared to an increase of \$142,556 for the year ended December 31, 2014.

	2015	2014
Operating Revenues		
Charges for services	\$ 1,321,246	\$ 1,221,174
Operating Expenses		
Operation and maintenance	540,934	729,798
Depreciation	354,503	348,820
Total Operating Expenses	895,437	1,078,618
Change in Net Position	\$ 425,809	\$ 142,556

At year end, available cash of the Stormwater Utility totaled \$1,254,076.

## **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 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 asset software in the beginning of 2015, which was implemented for the year ended December 31, 2015. All 2015 capital transactions were entered into the software by April 30, 2016. Plans are to have the 2016 and subsequent years' information captured during the year to be able to enter capital asset additions and retirements as they occur during the year.

### **2. Recording of Accounting Journal Entries for Allocation of Project Expenditures**

The accounting journal entries were not completed during the year as suggested primarily due to additional time required to convert the water and wastewater billing and meter reading system to new software. Plans are to prepare accounting journal entries currently in 2016 as construction and other major infrastructure projects are completed.

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

Monthly journal entries for special assessment transactions were not made during 2015. Entries were made in May of 2016 in order to reconcile the special assessment accounts receivable balances to the agree with outstanding detail. Plans are to begin the monthly journal entry process starting in June of 2016.

### **4. Recording of Non-lapsing Carryovers and Other Budget Amendments in the Accounting System**

This recommendation was not implemented during the 2015 year. General fund carryover appropriations and other budget amendments were entered into the financial statements prior to issuance. General fund carryover appropriations for 2016 were entered into the 2016 accounting software. Additional, plans are to enter current year budget amendments into the accounting software as they occur.

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

This recommendation was not implemented with the 2016 budget. The borrowing for meter purchases has been delayed until 2016 and plans are to develop cash flow analyses with the 2017 budget.

## STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS (Continued)

### 6. Suggestions from Review of the Finance Department Procedures

The following suggestions were noted last year from a detailed review of finance department procedures:

**Provide for a Review of Monthly Bank Account Reconciliations:** This suggestion was not implemented during 2015. Plans are to develop a review by the Clerk-Treasurer to start in 2016.

**Provide for a Separation of Duties between Entering Pay Rate Information and Processing Payroll:** This suggestion was not implemented because a review of the City's software revealed that the software did not allow payroll processing personnel to not have access to the pay rate field. As a result, an alternative control feature was implemented in 2016 to have personnel in the Human Resources Department verify on a test basis during the year pay rates used to process payroll.

**Provide for a Review of Final Pay Calculations for Retiring or Departing Employees:** This suggestion was implemented in 2015.

**Enter Additional Receivables and Invoices into the Automated Accounts Receivable System:** This suggestion was implemented in 2015 for additional police department and public works department receivables. Plans are to enter miscellaneous water department invoices into the system in 2016.

**Provide City Departments with Unpaid Receivable Reports:** This recommendation was implemented in 2015 for the police and public works department.

**Provide for Additional Separation of Duties Between the Depositing and Accounting Functions by Reviewing the Feasibility of a Bank Courier Pickup of Deposits:** Quotes for courier pickup were received in 2016 and it was determined that the cost was too high and that current City employees have available time to continue to make deposits. To provide for separation of duties between depositing and accounting functions, it was proposed that the City Clerk-Treasurer become the primary deposit person with the Deputy Clerk-Treasurer the backup.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

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

During our current audit, we reviewed the process used to reconcile the City's pooled cash and investments. The City uses a pooled cash system where all accounting funds share the same checking account and investment funds. The City accounting software contains bank reconciliation features that provide for an automated process to reconcile the pooled cash accounts in a combined all-cash transaction fund.

While our review indicated that the features of the software are being used to reconcile the pooled cash on a daily basis, we noted certain items that presently make the monthly reconciliations difficult to review and compare to recorded accounting transactions. The items noted are summarized as follows:

- Numerous reconciling items are used to agree the combined all-cash transactions fund month end balance to the sum of the fund accounting system pooled cash balances. A number of the reconciling items have been carried forward for years and should be cleared from the bank reconciliation program.
- Because of dates used in the entry of payables and receivables, specific receipt types and check runs can be recorded in different months in the fund cash accounts from the combined all-cash fund. The different months posting procedures can result in additional reconciling items in the month end process.

Accordingly, we recommend that all reconciling items be cleared from the combined all-cash fund on a timely basis. In addition, the City should review the software features and change recording procedures if necessary to avoid having specific receipt types or check runs record in different months.

**CITY RESPONSE:** The City will review the bank reconciliation and clear reconciling items and post any needed adjustments on a monthly basis. The City will change its procedures and post payables and receivables on a daily basis using a software update and procedure that distributes the activity from the pooled cash account to each respective fund cash account in 2016.

### **2. Revenue Bond Requirements**

The City's \$4,475,000 Water Utility Revenue Bonds, Series 2007 requires the City to maintain the following restricted cash balances:

#### **Water System Special Redemption Fund**

This fund consists of a reserve requirement, which represents debt proceeds set aside to provide financial resources in the event the City would have insufficient revenues in any year to make debt service payments and a principal and interest redemption fund which should be funded monthly from operating revenues of the water utility based on the upcoming principal and interest maturities. The bond ordinance requires the special redemption fund to be maintained as a separate bank or investment account from other funds of the City.

#### **Water System Depreciation Fund**

This fund is used to pay for repairs, replacements, extensions or additions to the water system and should be maintained at \$250,000.

As of December 31, 2015, the City had not segregated the special redemption fund from other municipal funds. In addition, because of cash used in the acquisition of capital assets, the City's water utility currently does not have available cash to fund either the water system special redemption or depreciation funds. Under the moral obligation clause of the bond ordinance, the City is required to appropriate funds sufficient to restore the reserve account to the minimum reserve amount, as defined in the ordinance. We have noted the City did set up a separate cash account for the special redemption fund in the appropriate amount of \$210,000 on July 29, 2016.

### **3. 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.

### **4. 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.



## **APPENDIX**

# CITY OF DE PERE

335 South Broadway  
De Pere, WI 54115  
Phone: 920/339-4050  
Fax No.: 920/330-9491  
Web: <http://de-pere.org>



July 29, 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 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, 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).

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 July 29, 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 December 30, 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. Except as made known to you, 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. Except as made known to you, 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. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
27. 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.
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, 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 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.

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. 72, *Fair Value Measurement and Application*, 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* and No. 77, *Tax Abatement Disclosures*, as discussed in Note D.11 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.

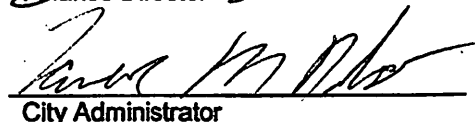
Signed:

  
Finance Director

Signed:

  
Clerk/Treasurer

Signed:

  
City Administrator