City of Appleton, Wisconsin

MANAGEMENT COMMUNICATIONS

December 31, 2018

City of Appleton, Wisconsin

DECEMBER 31, 2018

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To the Honorable Mayor and City Council
City of Appleton, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Appleton, Wisconsin (the "City") as of and for the year ended December 31, 2018. The City's financial statements, including our report thereon dated June 18, 2019, 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, *GOVERNMENT AUDITING STANDARDS*, UNIFORM GUIDANCE AND *STATE SINGLE AUDIT GUIDELINES*

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

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

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with Uniform Guidance and the *State Single Audit Guidelines*, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Compliance Supplement" and the *State Single Audit Guidelines* applicable to each of its major federal and state programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

PLANNED SCOPE AND TIMING OF THE AUDIT

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

SIGNIFICANT AUDIT FINDINGS

Consideration of Internal Control

FINANCIAL STATEMENTS

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 140 - 141 of the Comprehensive Annual Financial Report.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

FEDERAL AND STATE AWARDS

In planning and performing our audit of compliance for each major federal and state program, we considered the City's internal control over compliance (internal control) as a basis for designing audit procedures for the purpose of expressing our opinion on compliance requirements that could have a direct and material effect on each of the City's major federal and state programs for the year ended December 31, 2018, 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 compliance is presented on pages 142 - 143 of the Comprehensive Annual Financial Report.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance 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 noncompliance of the City's major federal or state award programs will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 4.I. to the financial statements, the City changed accounting policies related to postemployment benefits by adopting Statement of Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the other 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.
- Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the amortization period of intangible assets and deferred costs are based upon analysis of the expected useful life of the intangible assets. We evaluated the key factors and assumptions used to develop the reserves in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of accumulated 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 accumulated sick leave liability in determining that it is 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, 2018 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 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 liability (asset) and related deferred outflows/inflows of resources in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Copies of the audit adjustments are available from management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

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 18, 2019. 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. We were informed by management that there were no 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's discussion, the budgetary comparison information and analysis and the schedules relating 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 accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report there on dated June 18, 2019.

We were not engaged to report on the statistical section, which accompanies the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

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

CliftonLarsonAllen LLP

Green Bay, Wisconsin
June 18, 2019

Summary Financial Information

GOVERNMENTAL FUND BALANCES

Presented below is a summary of the City's governmental fund balances on December 31, 2018 and 2017. This information is provided for assessing financial results for 2018 and for indicating financial resources available at the start of the 2019 budget year.

	12/31/18	12/31/17
General Fund		
Nonspendable		
Inventories	$ 835,694	$ 922,307
Prepaid items	43,581	9,107
Advance to other funds (principal portion)	6,985,514	7,942,814
Developer loans	804,634	892,480
Restricted		
Encumbrances	81,918	-
Assigned		
PILOT applied to the subsequent year's budget	1,963,358	1,911,842
Subsequent year expenditures	-	100,000
Carryover appropriations	2,901,592	2,076,614
Compensated absences	5,078,538	5,041,508
Health insurance	987,407	576,565
Debt service	2,229,705	1,994,034
Unassigned	9,737,773	8,711,055
Total general fund	31,649,714	30,178,326
Special Revenue Funds		
Community development block grant	7,887	(1,622)
Rental energy grants	8,951	8,951
Sanitation & recycling program	1,228,173	1,447,054
Tax incremental district no. 3	(5,649,231)	(7,287,715)
Health grants	34,891	(5,441)
Police grants	(1,193)	(6,451)
Hazardous materials level A	352,834	320,295
Room tax	8,831	6,115
Continuum of care	2,315	5,000
HOME homeowner	109,737	127,272
Housing rehabilitation grant	70,969	21,049
Business and neighborhood revitalization grant	6,117	6,208
Emergency shelter	14,241	(2,283)
Lead hazard control grant	4,204	45,375
Tuchscherer disability	18,073	24,192
Peabody estate	66,861	65,914
Lutz Park	139,321	137,346
Park purpose open space	20,563	86,888
Union Spring Park	2,584	2,547
Project City Park	6,076	5,989
Miracle league baseball	26,347	25,974
Library grants	79,139	-
Total special revenue funds	(3,442,310)	(4,967,343)

	12/31/18	12/31/17
Debt Service Fund	$ 1,701,196	$ 1,345,594
Capital Projects Funds		
Facilities capital projects	2,342,198	1,416,238
Subdivision development projects	1,275,242	2,196,567
Industrial Park Land	571,287	796,724
Tax incremental district no. 6	(5,153,436)	(5,830,911)
Tax incremental district no. 7	814,082	666,160
Tax incremental district no. 8	(166,598)	(156,151)
Tax incremental district no. 9	196,937	92,087
Tax incremental district no. 10	91,772	87,141
Tax incremental district no. 11	(419,132)	(1,025)
Tax incremental district no. 12	(8,283)	(1,025)
Public safety facilities	42,162	60,647
Public works equipment	2,755,944	1,168,963
CEA replacement	2,602,466	2,736,373
Community development	78,363	176,363
Exhibition center	-	-
City center facilities	31,999	(82,076)
Information technology	155,832	395,049
Total capital projects funds	5,210,835	3,721,124
Total governmental fund balances	$ 35,119,435	$ 30,277,701

General Fund

As the main operating fund of the City, a strong general fund balance is important to maintain the City's long-term financial stability. Accordingly, the City maintains a reserve policy which stipulates that the total unreserved fund balance (excluding designations for debt service) will be 25% of the following year's budgeted appropriations. The policy also calls for an assigned balance for debt service of 25% of the ensuing year's debt service requirements, with 75% of any excess funds over these amounts used for the reduction of long-term liabilities and the remaining excess subject to recommendation from the Finance Committee and final Council approval. A summary of the City's 2019 general fund in comparison to this policy follows:

Fund balance, December 31, 2018	$ 31,649,714
Less: Nonspendable fund balance	(8,669,423)
Less: Assigned fund balance	
PILOT applied to the subsequent year's budget	(1,963,358)
Health insurance	(987,407)
Debt service (25% of ensuring year's debt service requirements)	(2,229,705)
Subsequent years expenditures of carryover	(2,901,592)
Less: Working capital (25% of 2019 budgeted expenditures)	(15,693,864)
General fund balance (in excess (deficiency) of reserve policy)	$ (795,635)

The City's general fund as of December 31, 2018 exceeded the projected balance of $27,932,013 in the City's 2018 budget primarily due to lower expenditures than projected. In looking at the individual components, the nonspendable fund balance was up due to additional advances to other funds, while the City carried forward budget appropriations of $2,901,592. General fund operating results and budgetary highlights are summarized in the City's Management's Discussion and Analysis on pages 12 and 14, respectively, of the comprehensive annual financial report.

WATER UTILITY

A comparative summary of the Water Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

	2018	2017
Operating Revenues		
Charges for services	$ 20,441,887	$ 20,321,981
Other	605,886	693,499
Total operating revenues	21,047,773	21,015,480
Operating Expenses		
Operation and maintenance	8,255,383	8,373,876
Depreciation	4,063,770	4,532,727
Taxes	2,581,559	1,841,497
Total operating expenses	14,900,712	14,748,100
Operating income	6,147,061	6,267,380
Nonoperating Revenues (Expenses)		
Interest expense	(1,951,448)	(2,095,814)
Investment income	278,749	177,736
Debt issuance costs	(7,000)	(20,500)
Loss on sale of assets	-	(39,965)
Amortization of prior losses on refunding bonds	(273,727)	(229,730)
Amortization of premium on debt issuance	716,132	660,996
Miscellaneous	19,334	17,898
Total nonoperating revenues (expenses)	(1,217,960)	(1,529,379)
Income before capital contributions and transfers	4,929,101	4,738,001
Capital contributions	410,927	736,903
Transfers out	(15,800)	(13,800)
Change in net position	5,324,228	5,461,104
Net position - January 1, as originally reported	89,036,702	83,575,598
Cumulative effect of change in accounting principle	(204,705)	-
Net position - January 1, as restated	88,831,997	83,575,598
Net position - December 31	$ 94,156,225	$ 89,036,702

The water utility's net position increased by $5,324,228 for 2018 compared to an increase of $5,461,104 for 2017. From an operating perspective, there was a slight decrease in operating revenues, with constant operating expenses.

The following analysis compares the 2018 and 2017 rate of return as calculated by the Public Service Commission (PSC). The primary differences in the operating income shown above and the operating income below is that depreciation on contributed plant is excluded from operating expenses per in the PSC calculation. The authorized rate of return approved by the PSC is 7.0%.

	2018	2017
Rate Base (Average Balances)	$ 106,792,129	$ 108,488,405
Operating Income	$ 6,491,687	$ 6,693,069
Rate of Return	6.08%	6.17%

WASTEWATER UTILITY

A comparative summary of the Wastewater Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

	2018	2017
Operating Revenues		
Charges for services	$ 9,140,058	$ 9,367,786
Other	3,659,792	2,776,401
Total operating revenues	12,799,850	12,144,187
Operating Expenses		
Operation and maintenance	7,417,075	7,494,136
Depreciation	2,948,529	2,872,797
Total operating expenses	10,365,604	10,366,933
Operating income	2,434,246	1,777,254
Nonoperating Revenues (Expenses)		
Interest expense	(424,193)	(488,144)
Investment income	291,561	174,762
Debt issuance costs	(83,596)	-
Amortization of premium on debt issuance	17,256	18,053
Total nonoperating revenues (expenses)	(198,972)	(295,329)
Income before capital contributions and transfers	2,235,274	1,481,925
Capital contributions	399,455	465,556
Transfers	(183,117)	(187,795)
Change in net position	2,451,612	1,759,686
Net position - January 1, as originally reported	97,698,801	95,939,115
Cumulative effect of change in accounting principle	(160,028)	-
Net position - January 1, as restated	97,538,773	95,939,115
Net position - December 31	$ 99,990,385	$ 97,698,801

The wastewater utility's net position increased by $2,235,274 for 2018 compared to an increase of $1,759,686 for 2017. From an operating standpoint, the utility received an additional $874,000 in waste hauler revenue (part of other revenues above) from 2017 to 2018, which offset an increase in operating costs due to maintenance and additional insurance costs.

STORMWATER UTILITY

A comparative summary of the Stormwater Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

	2018	2017
Operating Revenues		
Charges for services	$ 9,626,251	$ 9,428,127
Other	82,704	171,876
Total operating revenues	9,708,955	9,600,003
Operating Expenses		
Operation and maintenance	2,944,035	3,608,192
Depreciation	2,578,960	2,553,534
Total operating expenses	5,522,995	6,161,726
Operating income	4,185,960	3,438,277
Nonoperating Revenues (Expenses)		
Interest expense	(1,624,376)	(1,522,892)
Investment income	243,982	145,558
Gain on disposal of capital assets	111,712	-
Debt issuance costs	(79,583)	(76,889)
Amortization of prior losses on refunding bonds	(147,228)	(136,117)
Amortization of premium on debt issuance	414,828	405,852
Total nonoperating revenues (expenses)	(1,080,665)	(1,184,488)
Income before capital contributions and transfers	3,105,295	2,253,789
Capital contributions	1,017,013	784,603
Transfers out	(12,500)	(12,500)
Change in net position	4,109,808	3,025,892
Net position - January 1, as originally reported	72,352,515	69,326,623
Cumulative effect of change in accounting principle	(92,199)	-
Net position - January 1, as restated	72,260,316	69,326,623
Net position - December 31	$ 76,370,124	$ 72,352,515

The Stormwater Utility's net position increased $4,109,808 for 2018 compared to $3,025,892 for 2017. From an operating perspective, the operating revenues increased due to an increase in the number of equivalent runoff units due to new construction while operating expenses decreased for cost of lateral maintenance, and increased depreciation due to additional infrastructure.

VALLEY TRANSIT

A comparative summary of Valley Transit's change in net position for the years ended December 31, 2018 and 2017 appears below:

	2018	2017
Operating Revenues		
Charges for services	$ 1,533,078	$ 1,476,457
Other	106,323	96,054
Total operating revenues	1,639,401	1,572,511
Operating Expenses		
Operation and maintenance	9,152,309	8,982,721
Depreciation	632,834	622,352
Total operating expenses	9,785,143	9,605,073
Operating loss	(8,145,742)	(8,032,562)
Nonoperating Revenues (Expenses)		
Investment income (loss)	42,600	7,759
Loss on disposal of capital assets	(164,247)	-
Subsidies from other governmental units	7,606,393	6,905,780
Total nonoperating revenues (expenses)	7,484,746	6,913,539
Loss before capital contributions and transfers	(660,996)	(1,119,023)
Capital contributions	-	1,073,780
Transfers in	674,022	690,956
Change in net position	13,026	645,713
Net position - January 1, as originally reported	5,886,980	5,241,267
Cumulative effect of change in accounting principle	(270,910)	-
Net position - January 1, as restated	5,616,070	5,241,267
Net position - December 31	$ 5,629,096	$ 5,886,980

Valley Transit's net position increased by $13,026 for 2018 compared to a decrease of $645,713 for 2017. The decrease was due to a decrease of $386,000 from the government subsidies and increase of operating expenditures of $180,000.

PARKING UTILITY

A comparative summary of the Parking Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

	2018	2017
Operating Revenues		
Charges for services	$ 2,183,669	$ 2,295,604
Other	404,151	396,690
Total operating revenues	2,587,820	2,692,294
Operating Expenses		
Operation and maintenance	1,679,417	1,466,730
Depreciation	590,178	541,121
Total operating expenses	2,269,595	2,007,851
Operating income	318,225	684,443
Nonoperating Revenues (Expenses)		
Investment income	12,150	12,784
Interest and fiscal charges	(17,250)	(18,369)
Total nonoperating revenues (expenses)	(5,100)	(5,585)
Income before transfers	313,125	678,858
Transfers out	(1,009,300)	(1,239,300)
Change in net position	(696,175)	(560,442)
Net position - January 1, as originally stated	7,769,137	8,329,579
Cumulative effect of change in accounting principle	(49,552)	-
Net position - January 1, as restated	7,719,585	8,329,579
Net position - December 31	$ 7,023,410	$ 7,769,137

The parking utility's net position decreased $696,175 for 2018 compared to a decrease of $560,442 for 2017.

REID MUNICIPAL GOLF COURSE

A comparative summary of Reid Municipal Golf Course's change in net position for the years ended December 31, 2018 and 2017 appears below:

	2018	2017
Operating Revenues		
Charges for services	$ 742,155	$ 782,382
Other	76,519	78,015
Total operating revenues	818,674	860,397
Operating Expenses		
Operation and maintenance	697,559	700,186
Depreciation	64,979	67,859
Total operating expenses	762,538	768,045
Operating income	56,136	92,352
Nonoperating Expenses		
Interest expense	(12,345)	(13,148)
Investment income (loss)	3,209	578
Total nonoperating revenues (expenses)	(9,136)	(12,570)
Income before transfers	47,000	79,782
Transfers out	(21,100)	(17,900)
Change in net position	25,900	61,882
Net position - January 1, as originally stated	918,181	856,299
Cumulative effect of change in accounting principle	(15,434)	-
Net position - January 1, as restated	902,747	856,299
Net position - December 31	$ 928,647	$ 918,181

Reid Municipal Golf Course's net position increased $25,900 for 2018 compared to an increase of $61,882 for 2017.

New Accounting Standard

ACCOUNTING AND REPORTING FOR FIDUCIARY ACTIVITIES

In January 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities,* which establishes criteria for identifying fiduciary activities and revises reporting requirements. The standard is effective for fiscal years ending on or after December 31, 2019. In addition, the GASB expects to issue an implementation guide in 2019.

Identifying Fiduciary Activities

Activities other than pension and postemployment arrangements are considered fiduciary activities if all of the following criteria are met:

- The government controls the assets or can direct their use.
- The activity must not be solely based on the government's own-source revenue. Own-source revenue includes exchange transactions such as user charges, sales taxes and property taxes.
- The government does not have administrative involvement such as determining eligibility, monitoring compliance or approval of expenditures.
- The government does not have direct financial involvement such as matching requirements or liability for disallowed costs.

Activities meeting these criteria would be required to be reported as fiduciary funds. An exception is made for funds held in enterprise funds which are expected to be held for three months are less. These funds can continue to be reported in the enterprise fund. Activities not meeting these criteria would be reported as part of the governmental or proprietary funds.

The administrative involvement criteria is likely to have the most impact on reclassification of fiduciary activities. Policies on the expenditures of funds and approval of expenditures by an employee of the government may be considered administrative involvement and preclude the classification as a fiduciary activity.

Financial Reporting

An activity meeting the above criteria should be reported in one of the following four fiduciary funds:

- Pension and other employee benefit trust funds
- Investment trust funds
- Private-purpose trust funds
- Custodial funds

Fiduciary assets administered through a trust agreement are recorded in a pension and other employee benefit trust, investment or private-purpose trust fund. Custodial funds are used to report all other fiduciary activities not held in a trust or equivalent arrangement. Agency funds have been eliminated with GASB No. 84 and replaced with custodial funds.

Fiduciary funds will present a statement of fiduciary net position, including assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Liabilities to beneficiaries should be recognized when an event occurs that compels the government to disburse fiduciary resources, when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. A statement of changes in fiduciary net position should present additions by source and deductions by type.

Implementation

As mentioned previously, this new standard is effective for fiscal years ending on or after December 31, 2019. However, due to the potential reclassification of funds, the impact may need to be considered during budget preparation. We recommend the City begin to determine the impact of the Statement by:

1. Identifying potential fiduciary activities. Some activities to consider include:
   a. Tax collection funds
   b. Cemetery trust funds
2. Gathering facts regarding each activity, including the government's administrative involvement.
3. Evaluating whether each activity meets the fiduciary activity criteria and determine how it should be reported. An appendix to the Statement includes flowcharts for the evaluation process.

These changes will affect your 2019 financial statements. This comment is for informational purposes.

ACCOUNTING AND REPORTING FOR LEASES

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which establishes a single model for lease accounting and revises reporting requirements.

Lease accounting is required when a government contracts to use another entity's equipment, building, or other nonfinancial assets for a specific period of time. Under the new guidance, a lease asset and a lease liability are recorded in the government-wide financial statements for this contract. The lease liability is calculated by including the following: fixed payments, variable payments, interest rate, purchase options, residual value guarantees, and termination or extension options. The lease liability is discounted and is amortized over the lease term. The lease asset is calculated by starting with the lease liability amount and adjusting for incentives and other costs and is amortized over the shorter of the lease term or the useful life of the underlying asset. The lease asset is reported in the financial statements as an intangible right to use asset, rather than a capital asset under current guidance. Footnote disclosures including lease assets by asset class and related accumulated amortization and future minimum payments among other details are required under the new Statement.

When the government is leasing one of its assets to another entity, a lease receivable and deferred inflow of resources related to the lease receivable is recorded. The lease receivable is calculated similar to the lease asset described above. The lease receivable is discounted and is amortized over the lease term. The deferred inflow of resources is calculated by starting with the lease receivable and adjusting for incentives and other payments. The deferred inflow would be recognized as an inflow of resources in a systematic and rational manner over the lease term.

Some contracts include a nonlease component such as maintenance services. The government will need to allocate the contract cost between the lease component and the nonlease component, unless it is not practicable to do so. If it is not practicable, the entire contract should be treated as a lease.

This new standard is effective for fiscal years beginning after December 15, 2019. Early adoption is encouraged by GASB. We recommend the City review the new standard, gather all lease contracts, and identify the terms and conditions of each contract, noting the lease term, all payments, and options in order to properly determine the value of each lease. The City should also review contracts that have both lease and nonlease components to determine if a price allocation is practicable.

APPENDIX

"...meeting community needs...enhancing quality of life."

June 18, 2019

CliftonLarsonAllen LLP
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 City of Appleton, which comprise the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of December 31, 2018, and the respective changes in 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 on 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.

We confirm, to the best of our knowledge and belief, as of June 18, 2019, the following representations made to you during your audit of the financial statements as of and for the year ended December 31, 2018.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 16, 2019, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We acknowledge and have fulfilled 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.

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

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

5. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

6. Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

7. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements or in the schedule of findings and questioned costs.

8. We have not identified or been notified of any uncorrected financial statement misstatements. In addition, you have proposed adjusting journal entries that have been posted to the City's accounts. We have reviewed and approved those adjusting journal entries and understand the nature of the changes and their impact on the financial statements. We are in agreement with those adjustments and accept responsibility for them.

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

10. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.

11. 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.

12. 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 entity's name" during the period significantly exceeded the amounts in those categories as of the financial statement date was properly disclosed in the financial statements.

13. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.

14. 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.

15. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

16. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded.

17. Participation in a public entity risk pool has been properly reported and disclosed in the financial statements.

18. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefits (OPEB) liabilities and costs for financial accounting purposes are appropriate in the circumstances.

19. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.

Information Provided

1. 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 entity from whom you determined it necessary to obtain audit evidence.

   d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

   e. Access to all audit or relevant monitoring reports, if any, received from funding sources.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

   a. Management;

   b. Employees who have significant roles in internal control; or

   c. Others when the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.

6. We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse whose effects should be considered when preparing financial statements.

7. We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, or which would affect federal award programs, and we have not consulted a lawyer concerning litigation, claims, or assessments.

8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

10. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.

11. We have taken timely and appropriate steps to remedy fraud, illegal acts, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.

12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to City of Appleton, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

13. 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.

14. The entity has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.

15. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

16. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

17. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.

18. The financial statements properly classify all funds and activities.

19. 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.

20. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

21. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

22. Provisions for uncollectible receivables have been properly identified and recorded.

23. 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.

24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

26. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.

27. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

28. We have appropriately disclosed the entity'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.

29. 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.

30. We acknowledge our responsibility for presenting the supplementary information in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. 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. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.

31. As part of your audit, you prepared the draft financial statements and related notes, Public Service Commission Report, schedule of expenditures of federal awards and schedule of expenditures of state awards. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, Public Service Commission Report, and schedule of expenditures of federal awards and schedule of expenditures of state awards.

32. With respect to federal and state award programs:

    a. We are responsible for understanding and complying with, and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration including requirements relating to preparation of the schedules of expenditures of federal and state awards.

    b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) and related notes in accordance with the requirements of the Uniform Guidance and the schedule of expenditures of state awards (SESA) in accordance with the requirements of the *State Single Audit Guidelines*, and we believe the SEFA and SESA, including their form and content, are fairly presented in accordance with the Uniform Guidance and the *State Single Audit Guidelines*. The methods of measurement and presentation of the SEFA and SESA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA and SESA.

c. If the SEFA and SESA are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA and SESA no later than the date we issued the SEFA and SESA and the auditors' report thereon.

d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and *State Single Audit Guidelines* compliance audit, and included in the SEFA and SESA expenditures made during the audit period for all awards provided by federal and state agencies in the form of federal or state awards, federal or state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

e. We are responsible for understanding and complying with, and have complied with, the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards related to each of our federal and state programs and have identified and disclosed to you the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards that are considered to have a direct and material effect on each major federal and state program.

f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing our federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of federal and state awards that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended.

g. We have made available to you all federal and state awards (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relevant to federal and state programs and related activities.

h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.

i. We have complied with the direct and material compliance requirements, including when applicable, those set forth in the *OMB Compliance Supplement* and the *State Single Audit Guidelines*, relating to federal and state awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal and state awards.

j. We have disclosed to you any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E) and OMB Circular A-87, *Cost Principles State, Local, and Tribal Governments*, and OMB Circular A-102 *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.*

m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

n. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.

o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

p. There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

q. We have disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and/or material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditors' report.

r. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

s. The copies of federal and state program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal or state agency or pass-through entity, as applicable.

t. We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with federal and state statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance and *State Single Audit Guidelines*.

u. We have issued management decisions for audit findings that relate to federal and state awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.

v. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

w. We have charged costs to federal and state awards in accordance with applicable cost principles.

x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and *State Single Audit Guidelines*, and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.

y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.

z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance and *State Single Audit Guidelines*.

bb. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

33. We agree with the findings of specialists in evaluating the other postemployment 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 specialist.

34. Tax abatement agreements have been properly disclosed in the notes to the financial statements.

Signature: ______________________________ Title: Finance Director

Anthony Saucerman

Signature: ______________________________ Title: Deputy Director of Finance

Jeri Ohman