

MANAGEMENT COMMUNICATIONS

CITY OF CHILTON, WISCONSIN

DECEMBER 31, 2013

CITY OF CHILTON, WISCONSIN

December 31, 2013

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

We have completed our audit of the basic financial statements of the City of Chilton, Wisconsin (the "City") for the year ended December 31, 2013. The City's financial statements, including our report thereon dated March 24, 2014 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 plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, noncompliance with the provisions of laws, regulations, contracts and grants or other illegal acts may exist and not be detected by us.

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. 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 City as of and for the year ended December 31, 2013, 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 our auditing procedures for the purpose of expressing our opinion 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 43 – 44 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency that we consider to be a significant deficiency.

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 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, 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 deficiency in the City's internal control to be a significant deficiency:

Finding 2013-001 Preparation of Annual Financial Report

This finding is described in detail in the schedule of findings and responses on page 45 of the annual report.

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. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no significant 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 liability amount and determined that it is reasonable in relation to the financial statements taken as a whole.

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 trivial, and communicate them to the appropriate level of management. The financial statements reflect all accounting adjustments proposed during our audit. The adjustments included various end of year payable, receivable and reclassification entries. These entries are considered routine in nature and normally do not vary significantly from year to year. Copies of the audit adjustments are available from management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the 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 March 24, 2014. 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 auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to conducting the audit. 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.

This communication, which does not affect our report dated March 24, 2014 on the financial statements of the City, is intended solely for the information and use of the City Council, management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Certified Public Accountants
Green Bay, Wisconsin
March 24, 2014

SUMMARY FINANCIAL INFORMATION

The following information is provided to assist management in assessing financial results for the year ended December 31, 2013 and for indicating financial resources available at the start of the 2014 budget year.

Governmental Fund Balances

The following is a summary of financial position at December 31, 2013 along with a comparison with the prior year:

	2013	2012
General Fund		
Committed for subsequent years' expenditures	\$ 1,658,133	\$ 1,875,602
Unassigned	(41,897)	(72,394)
	<u>1,616,236</u>	<u>1,803,208</u>
Special Revenue Funds		
Committed for:		
Chilton lake district	37,902	37,809
Library - donations	179,163	88,245
Economic development	13,226	8,700
Community rehabilitation	144,375	131,665
Unassigned for:		
Redevelopment authority	(22)	(447)
	<u>374,644</u>	<u>265,972</u>
Capital Projects Funds		
Committed for:		
General capital improvements	480,128	477,719
Tax incremental district #2	736	107,960
Tax incremental district #4	554,253	570,174
Tax incremental district #5	(2,695)	(219,693)
	<u>1,032,422</u>	<u>936,160</u>
Total Governmental Fund Balances	<u>\$ 3,023,302</u>	<u>\$ 3,005,340</u>

- A. The above summary indicates a total general fund balance in the amount of \$1,616,236 which is approximately 57% of actual general fund expenditures. This level of fund balance is generally considered excellent by municipal bond consultants and an indication of sound financial planning.
- B. The decrease in the general fund balance of \$186,972 was anticipated. In 2013, certain appropriations were spent in accordance with the continuing appropriation purpose.

CITY OF CHILTON, WISCONSIN
 Tax Incremental Financing District No. 2 Annual Report
 For the Year Ended December 31, 2013

Date Created: January 1, 1992

Latest Possible Termination Date: 2018

	Current Year	Cumulative
Expenditures		
Project costs	\$ 38,290	\$ 8,084,237
Bond costs	36,357	38,640
Interest on debt	78,316	2,042,380
Total Expenditures	<u>152,963</u>	<u>10,165,257</u>
Revenues		
Tax increments	826,798	8,025,430
Land Sales	26,144	26,144
State aid	1,729	10,784
Other revenues	1,669	1,929,450
Total Revenues	<u>856,340</u>	<u>9,991,808</u>
Subtotal		173,449
Excess increment received from TID #1		(134,532)
Excess increment received from TID #1		(220,870)
Excess increment received from TID #1		(222,872)
Excess increment received from TID #3		(68,130)
Excess increment received from TID #3		(93)
Excess increment paid to TID #4 (2008)		417,077
Excess increment paid to TID #4 and #5 (2009)		561,746
Excess increment paid to TID #4 (2010)		200,000
Excess increment paid to TID #4 and #5 (2011)		552,433
Revenue paid to Economic Development (2010)		25,000
Revenue paid to Economic Development (2011)		14,060
Excess increment paid to TID #4 and #5 (2012)		244,000
Excess increment paid to TID #4 and #5 (2013)		<u>530,000</u>
<i>Net Unreimbursed Costs at December 31, 2013</i>		<u><u>\$ 2,071,268</u></u>

CITY OF CHILTON, WISCONSIN
 Tax Incremental Financing District No. 4 Annual Report
 For the Year Ended December 31, 2013

Date Created: January 1, 2005

Latest Possible Termination Date: 2031

	Current Year	Cumulative
Expenditures		
Project costs	\$ 158,592	\$ 2,585,651
Interest on debt	40,379	288,841
Total Expenditures	<u>198,971</u>	<u>2,874,492</u>
Revenues		
Tax increments	44,914	136,752
State aid	291	20,641
Other revenues	2,861	98,493
Total Revenues	<u>48,066</u>	<u>255,886</u>
Net Unreimbursed Costs at December 31, 2010		2,618,606
Excess increment received from TID #2 (2008)		(417,077)
Excess increment received from TID #2 (2009)		(396,551)
Excess increment received from TID #2 (2010)		(200,000)
Excess increment received from TID #2 (2011)		(467,000)
Excess increment received from TID #2 (2012)		(217,000)
Excess increment received from TID #2 (2013)		<u>(312,000)</u>
Net Unreimbursed Costs at December 31, 2013		<u><u>\$ 608,978</u></u>

CITY OF CHILTON, WISCONSIN
 Tax Incremental Financing District No. 5 Annual Report
 For the Year Ended December 31, 2013

Date Created: January 1, 2005

Latest Possible Termination Date: 2031

	Current Year	Cumulative
Expenditures		
Project costs	\$ 10,072	\$ 568,779
Interest on debt	-	46,477
Total Expenditures	<u>10,072</u>	<u>615,256</u>
Revenues		
Tax increments	7,366	56,434
State aid	12	32,591
Other revenues	1,691	27,907
Total Revenues	<u>9,069</u>	<u>116,932</u>
Subtotal		498,324
Excess increment received from TID #2 (2009)		(165,195)
Excess increment received from TID #2 (2011)		(85,433)
Excess increment received from TID #2 (2012)		(27,000)
Excess increment received from TID #2 (2013)		<u>(218,000)</u>
<i>Net Unreimbursed Costs at December 31, 2013</i>		<u><u>\$ 2,696</u></u>

Water Utility Rate of Return

The following is a calculation of the water utility rate of return using requirements of the Public Service Commission of Wisconsin for 2013 along with a comparison to 2012:

	2013	2012
Utility plant in service	\$ 4,643,395	\$ 4,619,469
Materials and supplies	21,161	22,094
Less:		
Regulatory liability	(256,219)	(280,621)
Accumulated depreciation	(1,832,533)	(1,721,691)
RATE BASE	<u>\$ 2,575,804</u>	<u>\$ 2,639,251</u>
OPERATING INCOME	<u>\$ 77,013</u>	<u>\$ 137,070</u>
RATE OF RETURN	<u>2.99%</u>	<u>5.19%</u>

The rate of return remains adequate. We will continue to monitor and inform the Council annually. In 2013, revenues decreased by \$23,000 and certain distribution costs increased by \$36,000 resulting in the reduced rate of return.

Sewer Utility Rate of Return

The following is a calculation of the sewer utility rate of return for 2013 along with a comparison to 2012:

	2013	2012
Utility plant in service	\$ 11,290,341	\$ 11,268,912
Less:		
Contributions in aid of construction	(4,508,566)	(4,508,566)
Accumulated depreciation	(5,963,750)	(5,547,036)
RATE BASE	<u>\$ 818,025</u>	<u>\$ 1,213,310</u>
OPERATING INCOME (LOSS)	<u>\$ 15,685</u>	<u>\$ 22,116</u>
RATE OF RETURN	<u>1.92%</u>	<u>1.82%</u>

To achieve a rate of return of 3%, operating income would be approximately \$25,000. In 2013, revenues increased by \$40,000 resulting in the improved rate return.



*The City of Chilton
42 School St.
Chilton, WI 53014
www.chilton.govoffice.com
info@chilton.govoffice.com
(920) 849-2451 (phone); (920) 849-2025 (fax)*

March 24, 2014

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 Chilton, Wisconsin, (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, 2013, 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 March 24, 2014, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 4, 2013, including our responsibility for the preparation and fair presentation of the financial statements 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 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 the requirements of U.S. GAAP.
 8. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. 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.
 9. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the City's accounts.
 10. 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, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 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.

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 City and involves:
 - i. Management,
 - ii. Employees who have significant roles in internal control, or
 - iii. Others where the fraud could have a material effect on the financial statements.
 - b. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
14. We have disclosed to you all known 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.
 15. 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, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 16. 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

17. We have made available to you all financial records and related data.
18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have a process to track the status of audit findings and recommendations.
20. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
22. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred inflows/outflows of resources, or equity.
23. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and 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.
24. 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.

25. As part of your audit, you assisted with preparation of the financial statements and related notes, state financial report and Public Service Commission annual report. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, state financial report and the Public Service Commission annual report
26. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the annual financial report.
27. 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.
28. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
29. 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.
30. The financial statements properly classify all funds and activities.
31. 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.
32. 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.
33. Provisions for uncollectible receivables have been properly identified and recorded.
34. 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.
35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
37. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
39. Joint ventures, jointly governed organizations, and other related organizations have been properly disclosed in the financial statements.
40. 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 were properly recognized under the policy.

41. We acknowledge our responsibility for presenting the nonmajor fund combining statements (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.
42. 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.
43. 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.
44. 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.
45. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
46. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
47. Expenditures of federal awards were below the \$500,000 threshold in the year ended December 31, 2013, and we were not required to have an audit in accordance with *OMB Circular A-133*.
48. 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.

Signed:


Ms. Helen Schmidkofer
City Clerk/Treasurer

Signed:


Ms. Lisa Meyer
Deputy City Clerk/Treasurer