

Manitowoc County, Wisconsin

MANAGEMENT COMMUNICATIONS

December 31, 2018

Manitowoc County, Wisconsin

DECEMBER 31, 2018

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To the County Board
Manitowoc County, 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 Manitowoc County, Wisconsin (the "County") for the year ended December 31, 2018. The County's financial statements, including our report thereon dated [REDACTED] 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 County'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 County'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 County'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 County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County'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, each major fund, and the aggregate remaining fund information of the County 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 County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages [REDACTED] 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.

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 County'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 County'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 County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control. Our report on internal control over compliance is presented on pages [REDACTED] 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.

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 County'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 County are described in Note 1 to the financial statements. As described in Note 3. H to the financial statements, the County 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 County 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 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 incurred, but not reported (IBNR) insurance reserves are based on actuarial projections of the expected cost of the ultimate settlement and administration of claims. 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 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.
- ▶ Management's estimate of accumulated compensated absences liability is based upon analysis of the employees compensated absence leave balance. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- ▶ Management estimated an allowance for uncollectible accounts for accounts receivable outstanding. These estimates are based upon management's knowledge of, and past experience with the outstanding balances. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The attached audit difference evaluation summarizes uncorrected misstatements of the financial statements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, 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 [REDACTED] 2018. 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 County'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 County'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.

Other Matters

We applied certain limited procedures to the management's discussion 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, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared 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 were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are 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 them.

Restriction on Use

This information is intended solely for the information and use of the County Board, and management of Manitowoc County, Wisconsin and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Sheboygan, Wisconsin



Summary Financial Information

GOVERNMENTAL FUND BALANCES

Presented below is a summary of the County'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.

	<u>2018</u>	<u>2017</u>
General Fund		
Nonspendable for		
Delinquent property taxes	\$ 1,497,546	\$ 1,504,252
Loans receivable	99,000	99,000
Inventories and prepaid items	193,128	83,065
Restricted for subsequent years' expenditures		
Public health	3,066	5,496
Veterans service	41,041	41,004
Utility conservation	540,699	671,600
Land record modernization	279,673	240,521
Register of deeds redaction	85,812	85,812
Parks and snow mobile	-	90,938
UW Extension	1,960	1,960
Committed for subsequent years' expenditures		
Aerial mapping	82,620	67,620
Area wide planning	133,187	118,576
Parks tree planting	4,748	4,000
Vehicle replacement	111,179	104,679
ROD	20,000	-
District attorney's office	10,000	5,000
Emergency management HAZMAT	158,925	156,459
Personnel	5,559	22,000
Elections	81,232	96,232
Treasurer outlay	-	17,540
Communications E-911	277,712	174,875
PW-PBX phone systems	101,382	350,521
Assigned		
Subsequent years' budget	-	820,000
Unassigned	1,375,623	638,105
Total General Fund Balance	<u>5,104,092</u>	<u>5,399,255</u>
Debt Service Fund		
Restricted for debt service	<u>601,977</u>	<u>598,711</u>

(continued)

	<u>2018</u>	<u>2017</u>
Special Revenue Funds		
Nonspendable for inventories and prepaid items		
Human services	15,350	89,678
Aging	448	448
Expo	1,884	1,805
Soil and water conservation	1,588	-
Restricted for		
Soil and water conservation	132,682	85,343
Sheriff K-9 unit	33,387	37,487
Revolving loan	1,657,539	1,633,773
Committed for subsequent years' expenditures		
Recycling	144,727	106,424
Solid waste disposal	319,663	317,812
Aging	831,251	805,264
Forestry tree planting	17,032	16,457
Expo	2,703,188	3,647,891
County roads and bridges	45,082	62,326
Assigned		
Human services	169,128	-
Unassigned (Deficit)		
Human services	-	(303,872)
Total Special Revenue Funds	<u>6,072,949</u>	<u>6,500,836</u>
Capital Projects Funds		
Restricted for		
Jail assessment project	74,427	32,013
Committed for		
Economic development projects	178,862	179,112
Park acquisition development projects	10,227	10,227
UW Manitowoc remodel	3,599	655,400
Total Capital Projects Funds	<u>267,115</u>	<u>876,752</u>
Total governmental fund balances	<u>\$ 12,046,133</u>	<u>\$ 13,375,554</u>

COMPARATIVE SUMMARY OF HIGHWAY FUND

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

	<u>2018</u>	<u>2017</u>
Operating revenues		
Public charges for services	\$ 98,660	\$ 142,947
Intergovernmental charges for services	2,987,440	3,506,696
Interdepartmental charges for services	5,198,838	3,589,903
Miscellaneous	20,607	37,303
Total operating revenues	<u>8,305,545</u>	<u>7,276,849</u>
Operating expenses		
Operation and maintenance	7,545,494	6,929,800
Depreciation and depletion	705,996	643,274
Total operating expenses	<u>8,251,490</u>	<u>7,573,074</u>
Operating income (loss)	<u>54,055</u>	<u>(296,225)</u>
Nonoperating revenues		
Insurance refunds	12,503	7,947
Rental income	63,237	2,009
Gain on disposal of assets	96,334	96,334
Total nonoperating revenues	<u>172,074</u>	<u>106,290</u>
Change in net position	<u>\$ 226,129</u>	<u>\$ (189,935)</u>

As shown above, the Highway Fund produced operating income of \$54,055 in 2018 compared to an operating loss of \$296,225 in 2017. The fluctuation in operating results is largely due to increased revenue from interdepartmental charges.

SUMMARY OF MACHINERY OPERATIONS COST POOL

Cost pools are used to accumulate costs of the highway department where the intent is to recover expenses of operations, including depreciation on highway buildings and equipment, directly from user charges for service. The cost pool accounting system is designed to match all revenues and expenses of a particular operation and aid management in determining the adequacy of rates being charged and the cost effectiveness of each operation. Presented below is a summary of the machinery operations cost pool of the highway department internal service fund for the past two years:

	<u>2018</u>	<u>2017</u>
Operating revenues		
Charges for services	<u>\$ 1,902,429</u>	<u>\$ 1,715,104</u>
Operating expenses		
Labor and fringe benefits	339,821	335,566
Fuel	332,328	248,125
Materials and supplies	236,197	200,660
Overhead	335,494	368,328
Sundry	58,283	61,797
Depreciation	408,061	352,199
Total operating expenses	<u>1,710,184</u>	<u>1,566,675</u>
Operating income	<u>\$ 192,245</u>	<u>\$ 148,429</u>

COMPARATIVE SUMMARY OF COUNTY ROADS AND BRIDGES SPECIAL REVENUE FUND

A comparative summary of the County roads and bridges special revenue fund's change in fund balance for the years ended December 31, 2018 and 2017 appears below:

	<u>2018</u>	<u>2017</u>
Revenues		
Property taxes	\$ 2,231,219	\$ 2,657,187
Intergovernmental		
State aid - highways	1,251,319	1,088,103
Total revenues	<u>3,482,538</u>	<u>3,745,290</u>
Expenditures		
Routine and winter maintenance	2,709,007	2,577,150
Road and bridge construction	2,489,857	1,012,753
Town bridge aid	270,918	110,627
Total expenditures	<u>5,469,782</u>	<u>3,700,530</u>
Excess of revenues over (under) expenditures	<u>(1,987,244)</u>	<u>44,760</u>
Other financing sources		
Long-term debt issued	1,150,000	-
Transfers in	820,000	-
Total other financing sources	<u>1,970,000</u>	<u>-</u>
Net change in fund balance	<u>\$ (17,244)</u>	<u>\$ 44,760</u>

COMPARATIVE SUMMARY OF HUMAN SERVICES SPECIAL REVENUE FUND

A comparative summary of the human services special revenue fund's change in fund balance for the years ended December 31, 2018 and 2017 appears below:

	<u>2018</u>	<u>2017</u>
Revenues		
County tax levy	\$ 7,288,470	\$ 7,122,797
State aid	9,708,501	8,978,430
Department collections and other revenue	2,573,940	1,497,657
Total revenues	<u>19,570,911</u>	<u>17,598,884</u>
Expenditures		
Administration and aid programs	19,171,896	17,568,878
Capital outlay	7,343	93,687
Total expenditures	<u>19,179,239</u>	<u>17,662,565</u>
Excess of revenues over (under) expenditures	<u>391,672</u>	<u>(63,681)</u>
Other financing sources		
Transfers in	<u>7,000</u>	<u>-</u>
Net change in fund balance	<u>\$ 398,672</u>	<u>\$ (63,681)</u>

APPENDIX

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ALG-CX-12.2: Audit Difference Evaluation Form

PPC Guide
Links

Governmental Unit: Manitowoc County

Financial Statement Date: December 31, 2018

Completed by: CliftonLarsonAllen LLP

Date: REPORT DATE

Opinion Unit: Fund Financial Statements

A Listing of Known Audit Differences Over: \$3,700

ALG-CX-2.1

Section 1010

Instructions: This form may be used to accumulate audit differences (AD) greater than the amount considered trivial (documented at Step 5 of ALG-CX-2.1). This form should *not* include normal closing entries. At the end of the audit, evaluate all uncorrected audit differences, individually and in the aggregate, in the context of individual opinion units and conclude on whether they materially misstate the financial statements of an opinion unit taken as a whole. Thus, a separate "Audit Difference Evaluation Form" should be prepared for each opinion unit. Before evaluating the effect of uncorrected misstatements, reassess whether materiality is still appropriate based on the entity's actual financial results. The notes following the table provide explanations and a listing of qualitative considerations in evaluating materiality. The form allows for quantifying the effect of misstatements, using both the rollover and iron curtain methods, as appropriate. You need to be familiar with the guidance in section 1010 before completing this form.

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	Work-paper Ref.	Financial Statement Effect—Amount of Over- (Under-) statement of:							
				Total Assets	Total Liabilities	Working Cap.	Fund Balance/Net Position	Revenues	Expen.	Change in Fund Balance/ Net Position	
Cash accounts are out of balance to known amounts	Factual	Worker's Comp is not recorded on the TB; there is also \$2,500 in an escrow account not recorded	E02	12,668	12,668						
Aging intergovernmental revenue is understated compared to state provided information	Judgmental	Unknown; it is suspected that balance is recorded in another revenue account	AG51					24,388			
Total				12,668	12,668	0	0	24,388	0	0	
Less audit adjustments subsequently booked											
Net unadjusted AD—current year (iron curtain method)				12,668	12,668	0	0	24,388	0	0	
Effect of unadjusted AD—prior years											
Combined current year and prior year AD (rollover method)				12,668	12,668	0	0	24,388	0	0	
Financial statement caption totals				50,641,520	38,595,387		12,046,133	62,207,876	63,537,297		
Current year AD as % of F/S captions (iron curtain method)				0.03%	0.03%	0.00%	0.00%	0.04%	0.00%	0.00%	
Current and prior year AD as % of F/S captions (rollover method)				0.03%	0.03%	0.00%	0.00%	0.04%	0.00%	0.00%	

Section 1010