

MANAGEMENT COMMUNICATIONS

**TOWN OF CLAYTON
WINNEBAGO COUNTY, WISCONSIN**

DECEMBER 31, 2016

TOWN OF CLAYTON
WINNEBAGO COUNTY, WISCONSIN
December 31, 2016

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To the Town Board
Town of Clayton
Winnebago County, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of Town of Clayton, Wisconsin (the "Town") for the year ended December 31, 2016. The Town's financial statements, including our report thereon dated March 24, 2017, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

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

In planning and performing our audit, we considered the Town'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 Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Consideration of Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 37 - 38 of the annual report.



Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

Finding 2016-001 Segregation of Duties -- Treasurer/Assistant Administrator

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

Finding 2016-002 Adjustments to the Town's Financial Records

These findings are described in detail in the schedule of findings and responses on pages 39 - 40 of the annual report.

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

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note A to the financial statements. As described in Note C.1 to the financial statements, the Town changed accounting policies related to fair value measurement by adopting Statement of Governmental Accounting Standards Board (GASB) No. 72, *Fair Value Measurement and Application* in 2016. We noted no transactions entered into by the Town 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 the net pension liability (asset) and related deferred outflows/inflows of resources is based on information received from the Wisconsin Retirement System. We evaluated the key factors and assumptions used to develop the net pension asset and related deferred outflows/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. The following material misstatements detected as a result of audit procedures were corrected by management:

- Record stormwater capital asset additions of \$47,990
- Record stormwater utility depreciation expense of \$47,369

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 March 24, 2017. The management representation letter follows this communication.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town'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 schedules relating to pensions, 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.

Restriction on Use

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

Sincerely,

Handwritten signature in cursive script that reads "Schmidt SC".

Certified Public Accountants
Green Bay, Wisconsin
March 24, 2017

OTHER COMMENTS AND OBSERVATIONS

1. Governmental Fund Balances

Presented below is a summary of Town governmental fund balances on December 31, 2016 and 2015. Information is provided for assessing financial results for 2016 and for indicating financial resources available for 2017 and subsequent years.

	12/31/16	12/31/15
General Fund		
Nonspendable for		
Prepaid items	\$ 198	\$ 5,562
Restricted for		
Fire department expenditures	8,849	-
Park impact fee projects	-	6,641
Committed for		
Cemetery	45,501	44,276
Capital improvements	-	194,963
Capital equipment	169,806	-
Sick leave and vacation payout	40,000	-
Unassigned	416,936	419,806
Total General Fund	<u>681,290</u>	<u>671,248</u>
Capital Projects		
Restricted for		
Capital improvements	808,413	489,242
Debt service	114,909	-
Total Capital Projects Fund	<u>923,322</u>	<u>489,242</u>
Solid Waste/Recycling	<u>105,517</u>	<u>120,815</u>
Debt Service	<u>-</u>	<u>(2,125)</u>
Total Governmental Funds	<u>\$ 1,710,129</u>	<u>\$ 1,279,180</u>

OTHER COMMENTS AND OBSERVATIONS (Continued)

2. Stormwater Management Utility - Budget-to-Actual (Cash Basis)

A budget-to-actual summary of the stormwater management utility's cash receipts and cash disbursements for the year ending December 31, 2016 is as follows:

	Budgeted Amounts	Actual Amounts	Variance with Budget - Positive (Negative)
Cash Receipts			
Stormwater management	\$ 169,000	\$ 166,659	\$ (2,341)
Cash Disbursements			
Operating and Capital			
Employee wages and benefits	70,125	69,704	421
Vendors and contractors	55,650	43,286	12,364
Debt Service			
Principal	36,952	36,952	-
Interest	2,005	1,016	989
Total Cash Disbursements	164,732	150,958	13,774
Excess of Cash Receipts Over Cash Disbursements	\$ 4,268	\$ 15,701	\$ 11,433

OTHER COMMENTS AND OBSERVATIONS (Continued)

3. Status of Prior Year Comments

Consider Changes to Annual Budget Document

In 2015 and 2016, the Town included all operations of the Town in budget documents titled "General Fund Revenue Budget and General Fund Expense Budget". Although the budget included separate accounts for Debt Service, Solid Waste, Stormwater Management and Capital Projects, it did not clearly indicate the totals for each fund and the required tax levy, if applicable.

In order to improve the clarity of the budget document and to easily disclose financial information for entry in the fund accounting system, we recommend the Town consider the following changes to future budget documents:

- Create separate budgets for each accounting fund with totals for revenues and expenditures/expenses for each fund.
- Calculate the difference between revenues and expenditures/expenses of each fund and disclose how any deficit will be funded – for example fund balance applied or cash on hand.
- Create separate project or activity accounts in the budget document and accounting system for each separate capital project, including the various capitalized stormwater management projects.
- Include all debt service fund expenditures financed by the tax levy in the debt service fund.

The Town did not modify their budget in 2016 as recommended, but in the 2017 budget, the Town clearly indicated the required levy for the debt service fund. They can still work to improve the clarity of their budget document by implementing the other recommendations noted above.

APPENDIX



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March 24, 2017

Schenck SC
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Green Bay, WI 54305-3819

This representation letter is provided in connection with your audit of the financial statements of the Town of Clayton, (the "Town"), which comprise the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information as of December 31, 2016, and the respective changes in the financial position and where applicable, cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of March 24, 2017, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 4, 2016, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. In regards to accounting estimates:
 - The measurement processes used by management in determining accounting estimates is appropriate and consistent.
 - The assumptions appropriately reflect management's intent and ability to carry out specific courses of action.
 - The disclosures related to accounting estimates are complete and appropriate.
 - No subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.
7. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
8. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
9. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the Town'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 Town 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 Town from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Town Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
14. We made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:
 - a. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

- i. Management,
 - ii. Employees who have significant roles in internal control, or
 - iii. Others where the fraud could have a material effect on the financial statements.
- b. We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements communicated by employees, former employees, regulators, or others.
15. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We 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.
17. We have disclosed to you the identity of the Town's related parties and all the related party relationships and transactions of which we are aware.

Government - specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have 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 Town 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 legal and contractual provisions for reporting specific activities in separate funds.
24. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
25. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
26. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

27. 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.
28. As part of your audit, you assisted with preparation of the financial statements and related notes, and state financial report. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, and state financial report.
29. In regard to the capital asset depreciation services performed by you, we have –
 - a. Assumed all management responsibilities.
 - b. Designated an individual (within senior management) with suitable skill, knowledge, or experience to oversee the services.
 - c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of the services.
30. The Town 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.
31. The Town has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
32. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
33. The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
34. 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.
35. 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.
36. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
37. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
38. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
40. We have appropriately disclosed the Town'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.
41. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
42. 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.
43. We acknowledge our responsibility for presenting the individual fund statements and supporting schedules (the supplementary information) in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
44. We agree with the findings of specialists in evaluating the pension benefits and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
45. 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 Town's name" during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.
46. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been reduced to their estimated net realizable value.
47. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
48. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
49. We do not plan to make frequent amendments to our pension benefit plans.

50. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signed:



Richard Johnston
Town Administrator/Clerk

Signed:



Tori Straw
Treasurer/Assistant Administrator