Village of Allouez, Wisconsin

MANAGEMENT COMMUNICATIONS

December 31, 2021

Village of Allouez, Wisconsin

DECEMBER 31, 2021

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Village Board
Village of Allouez
Allouez, 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 the Village of Allouez, Wisconsin as of and for the year ended December 31, 2021, and have issued our report thereon dated June 16, 2022. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit in our engagement letter dated December 3, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings or issues

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Allouez are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2021.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

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 affecting 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 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 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 the accumulated sick leave and vacation is based upon the analysis of the employee sick leave and vacation balances. We evaluated the key factors and assumptions and the consistency of these factors and assumptions used to develop the accumulated sick leave and vacation in determining it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures

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

Significant unusual transactions

We identified no significant unusual transactions.

Difficulties encountered in performing the audit

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

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

Corrected misstatements

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this communication, a disagreement with management is a disagreement on 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 our audit

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated June 16, 2022.

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 entity'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.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Supplementary information in relation to the financial statements as a whole

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, 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 RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the general fund detailed comparison of budgeted and actual revenues and expenditures and the nonmajor fund combining statements (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, 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 or the reasons for such changes, 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 thereon dated June 16, 2022

* * *

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

CliftonLarsonAllen, LLP

Green Bay, Wisconsin
June 16, 2022

Summary Financial Information

GOVERNMENTAL FUND BALANCES

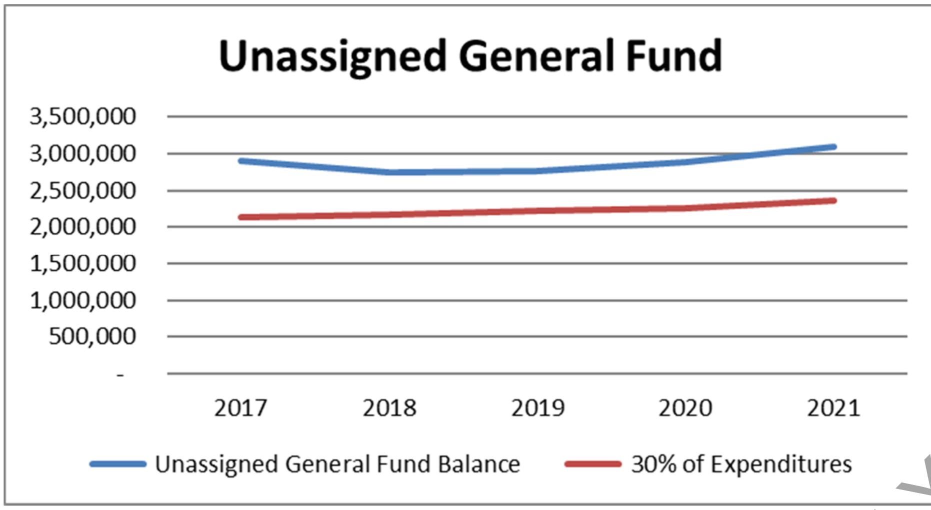
Presented below is a summary of the Village's governmental fund balances on December 31, 2021 and 2020. This information is provided for assessing financial results for 2021 and for indicating financial resources available at the start of the 2022 budget year.

	12/31/21	12/31/20
General Fund		
Nonspendable for		
Prepaid items	$ 33,538	$ 33,928
Delinquent taxes	2,896	3,421
Assigned for		
General Admin	5,484	-
Engineering	12,000	-
Public Works	28,000	-
Emerald ash borer	5,274	27,843
HVAC	41,391	41,391
Parking lot	42,015	37,450
Future year expenditures	-	26,079
Subsequent year's budget	-	200,000
Unassigned	3,095,629	2,879,826
Total General Fund	3,266,227	3,249,938
Special Revenue Funds		
Public bus service	192,585	135,783
Compensated absences	38,535	94,401
ARPA Funds	72	-
Excess stadium district sales tax	115	18,840
Total Special Revenue Funds	231,307	249,024
Debt Service Fund	105,131	105,032
Capital Projects Funds		
Capital facilities and equipment	1,075,675	325,038
Parks capital improvement	283,393	36,687
TID No. 1	1,336,258	424,181
Total Capital Projects Funds	2,695,326	785,906
Total Governmental Fund Balances	$ 6,297,991	$ 4,389,900

The Village's general fund balance totaled $3,266,227 on December 31, 2021, an increase of $16,289 from the prior year.

The unassigned general fund balance increased $215,803. The Village's fund balance policy recommends the Village will maintain an unassigned general fund balance of 30% of the subsequent year's budgeted general fund expenditures, or $2,367,758 as of December 31, 2021. The unassigned balance of $3,095,629 exceeds the minimum level. If the Village elects to apply general fund balances, we will continue to recommend it be used for one-time projects.

The following chart shows a 5 year comparison of the Village's unassigned general fund balance to its minimum fund balance policy.



The chart illustrates the following points:

- From a comparison perspective, the Village budgeted general fund expenditures have remained fairly constant, as illustrated by the red line, which represents 30% of the subsequent year's expenditures.
- The Village's unassigned fund balance has consistently exceeded the minimum balance, which represents a strong commitment by the Village to effectively manage its operating budget.

To further evaluate the governmental funds, we summarized property tax levies for the past three years. The levy has increased approximately 11% in the past three years.

	2022	2021	2020
General Property Taxes			
General fund	$ 5,827,680	$ 5,276,839	$ 5,146,709
Public bus service	69,000	65,000	57,000
Compensated absences	10,000	10,000	10,000
Debt service fund	1,387,784	1,341,815	1,291,886
Total General Property Taxes	7,294,464	6,693,654	6,505,595
Tax Increment			
TID No. 1	693,081	809,478	692,949
Total	$ 7,987,545	$ 7,503,132	$ 7,198,544

TAX INCREMENTAL DISTRICT NO. 1

The Village created the Tax Incremental District (TID) No. 1 on October 18, 2011 in accordance with Section 66.1105 of the Wisconsin Statutes. The District has a maximum life of October 18, 2038 or 27 years from creation.

A summary of the 2021 activity follows:

	2021	Cumulative
Project Expenditures		
Administration	$ 118,460	$ 557,143
Project costs	63,671	4,164,870
Developer incentives	15,340	578,976
Interest expense	16,150	49,931
Total Expenditures	213,621	5,350,920
Project Revenues		
Tax increments	$ 809,478	$ 3,402,695
Intergovernmental	314,875	639,189
Public charges for services	-	126,950
Miscellaneous	56,345	178,024
Total Revenues	1,180,698	4,346,858
Net Unreimbursed Costs at December 31, 2021	$ 967,077	(1,004,062)
Reconciliation to TID No.1 Fund Balance at December 31, 2021		
Add:		
Balance of long term TID No.1 debt at December 31, 2021		1,815,000
Transfers from general fund		525,320
TID No.1 Fund Balance at December 31, 2021		$ 1,336,258

SUMMARY OF OPERATIONS - SANITARY SEWER UTILITY

The Village's Sanitary Sewer Utility accounts for customer revenues and costs for providing sewage collection and treatment. The enterprise fund is accounted for on a full accrual basis and as such, includes all costs, including depreciation on capital assets and interest charge on long-term debt.

A comparative summary of the Sanitary Sewer Utility's change in net position for the years ended December 31, 2021 and 2020 appears below:

	2021	2020
Operating Revenues		
Charges for services	$ 2,650,878	$ 2,752,439
Operating Expenses		
Purchased services		
Green Bay MSD	1,878,719	1,990,409
Village water utility	79,503	88,946
City of Green Bay	1,896	1,948
Other operation and maintenance	317,756	233,822
Televising sewer mains	11,463	9,817
Depreciation	229,994	225,838
Total Operating Expenses	2,519,331	2,550,780
Operating Income	131,547	201,659
Nonoperating Revenues (Expenses)		
Interest revenue	3,434	5,032
Interest expense	(121,188)	(112,157)
Gain (Loss) on asset removal	(3,222)	-
Total Nonoperating Revenues (Expenses)	(120,976)	(107,125)
Income before Contributions	10,571	94,534
Transfer from Sewer Utility	351,000	-
Capital Contributions	29,123	-
Change in Net Position	$ 390,694	$ 94,534

The Sanitary Sewer Utility enterprise fund generated an operating income of $131,547 in 2021, compared to an operating income of $201,659 in the prior year. The utility experienced decreases in maintenance expenses in 2021, resulting in an increase in their operating income.

Cash provided from operations of $287,795, along with special assessment collections, were sufficient to fund the Utility's debt service requirements for 2021.

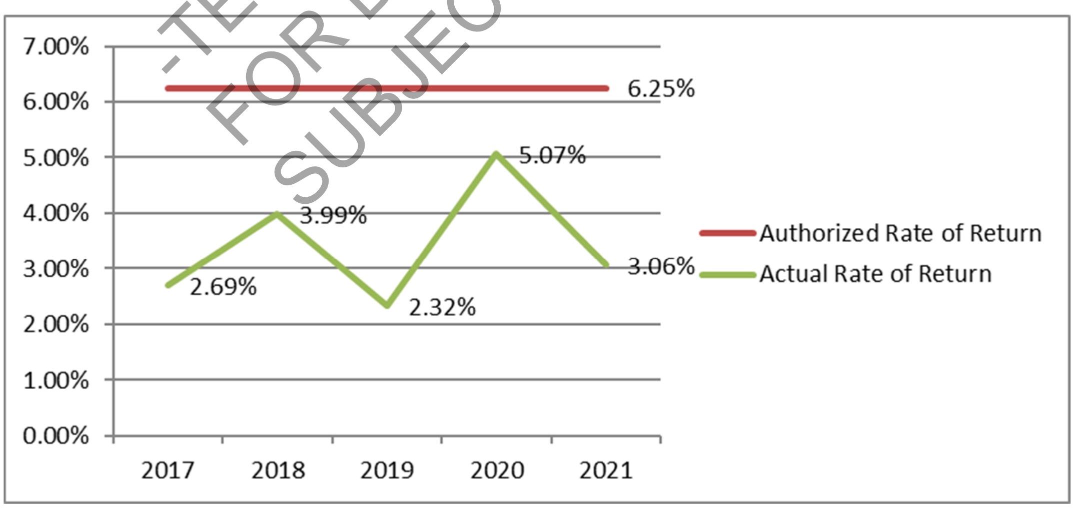
We recommend the Village continue to monitor the results of the fund and implement periodic rate increases, as considered necessary.

SUMMARY OF OPERATIONS - WATER UTILITY

A comparative summary of the Water Utility's change in net position for the years ended December 31, 20 21 and 2020 appears below:

	2021	2020
Operating Revenues		
Charges for services	$ 3,482,078	$ 3,586,340
Other	157,050	160,050
Total Operating Revenues	3,639,128	3,746,390
Operating Expenses		
Operation and maintenance	2,525,209	2,736,461
Depreciation	381,099	370,531
Total Operating Expenses	2,906,308	3,106,992
Operating Income	732,820	639,398
Nonoperating Revenues (Expenses)		
Interest revenue	77	53
Interest expense	(182,617)	(161,055)
Amortization of premium on bonds	-	16,656
Total Nonoperating Revenues (Expenses)	(182,540)	(144,346)
Income before Contributions and Transfers	550,280	495,052
Capital Contributions	-	4,469
Transfer to General Fund	(289,252)	(305,086)
Transfer to Debt Service Fund	(246,000)	-
Transfer to Sewer Fund	(351,000)	-
Transfer to Stormwater Fund	(124,000)	-
Change in Net Position	$ (459,972)	$ 194,435

The Water Utility generated an operating income of $732,820 in 2021, compared to an operating income of $639,398 in the prior year. Cash provided from operations of $1,051,846 were just sufficient enough to fund the Utility's tax equivalent payment to the general fund and debt service requirements for 2021. A comparison of the Utility's actual rate of return to the authorized rate of return for the past five years is as follows:



The Utility has consistently been under the authorized rate of return since their latest rate increase in March 1, 2016.

SUMMARY OF OPERATIONS - STORM WATER UTILITY

A comparative summary of the Storm Water Utility's change in net position for the years ended December 31, 2021 and 2020 appears below:

	2021	2020
Operating Revenues		
Charges for services	$ 666,354	$ 681,000
Operating Expenses		
Operation and maintenance	331,884	403,006
Depreciation	234,417	232,998
Total Operating Expenses	566,301	636,004
Operating Income	100,053	44,996
Nonoperating Revenues (Expenses)		
Interest revenue	726	1,054
Interest expense	(100,339)	(104,568)
Amortization of premium on bonds	-	11,158
Gain (Loss) on asset removal	(29)	100
Total Nonoperating Revenues (Expenses)	(99,642)	(92,256)
Loss before Contributions	411	(47,260)
Transfers from Sewer Utility	124,000	-
Capital Contributions	-	132,108
Change in Net Position	$ 124,411	$ 84,848

The Storm Water Utility generated an operating income of $100,053 in 2021, compared to an operating income of $44,996 in the prior year. Cash provided from operations of $291,757, along with assessment collections, were not sufficient to fund the Utility's debt service requirements for 2021.

TECHNICAL UPDATE

Upcoming GASB Standards that will be effective for the Village's 2022 fiscal year:

GASB Statement No. 87 – *Leases*

GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. Specifically, this statement:

1. Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
2. Defines the "lease term" and clarifies when lessees and lessors should reassess the lease term due to lease modifications or terminations.
3. Defines and establishes recognition criteria for short-term leases.
4. Amends accounting and financial reporting requirements for contracts with multiple components, contract combinations, subleases, and leaseback transactions.
5. The statement is effective for years beginning after June 15, 2021. Earlier application is encouraged.

Steps that can be taken now:

1) **Gather leases and contracts.** Depending on the number of leases your organization has, this may be a bigger challenge than anticipated. Keep in mind that not all leases are written "lease" agreements. Some contracts also include embedded leases that were previously treated as expenses, so you may be surprised to find more operating leases than you realized. Checking accounts payable for recurring payments may help you locate agreements that you'll need to analyze.

2) **Analyze all contracts to determine which are leases under the new standard.** GASB 87 defines a lease as a "contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset), as specified in the contract, for a period of time in an exchange or exchange-like transaction." Here are some of the agreements that can be excluded:

   - Short-term leases that are one year or less in duration.
   - Intangibles, such as investment assets, software licenses, and patents.
   - Financed purchases, where ownership of the asset transfers at the end of the lease without an additional payment.

3) **Review leases for multiple components.** Some leases include service agreements that will need to be split off from the entire lease. Many agreements (like service agreements and supply contracts) may qualify as leases under GASB 87. Some examples of service contracts that may have embedded leases can include cafeteria equipment, soda fountains, water coolers, coffee machines, etc. where the government may get to use a particular piece of equipment for free in return for the exclusive use of the provider's products.

4) **Determine appropriate materiality thresholds for capitalization**. Work with your auditor to determine what this should be. Be aware that items that are well below that threshold individually may be material in the aggregate.

5) **Select a technology solution such as leasing software to help manage your leases**. Unless your organization only has a few leases, the calculations for journal entries and footnote disclosures will most likely be beyond the capabilities of Excel. When choosing a software solution, keep in mind that tracking this information from leases will be an ongoing project, so look for one that's easy to use and provides your organization with all the information you'll need. Make sure to consider document storage as part of the capabilities. Entities with greater than 10-20 identified leases may wish to seriously consider a lease software solution and not rely on spreadsheets. Keep in mind that if a government has many similar leases, it may choose to amortize the lease assets as a group rather than individually. Composite depreciation is applied to groups of dissimilar assets, but should not be applied across classes of assets, such as buildings, equipment, furniture, and vehicles.

6) **Consider the Village's bond covenants, loan covenants, and debt limitations to determine impact**. While a recent update from GASB (GASB 88) specifies that lease liabilities are excluded from the definition of debt for the purposes of financial statement disclosures, it's not clear whether banks, credit rating agencies or other stakeholders will take a similar stance.

   Adding liabilities for operating leases to the balance sheet may mean that covenants for bond contracts and loan agreements will be violated. If this is the case, you may need to renegotiate those agreements. Contacting these stakeholders and other interested parties early on is crucial.

   Adding to the complexity, the rules and statutes governing debt limitations vary across states, counties, and municipalities. You may need to consult with an attorney to determine whether lease liabilities count as debt for those limitations.

7) **Develop new Village policies and procedures as necessary.** Unlike many other financial controls, you'll need to work as a team with people outside of accounting, including procurement, IT, and legal, to make sure all leases and contracts go through accounting. You may need to educate others about the balance sheet impacts of leases.

8) **Do your initial calculations and run the results past your auditor**. Because the calculations are different from the previous treatment of leases, some advisors are recommending performing a trial calculation on a subset of your leases. Then, ask us as your auditors to check your numbers before you do the entire population of leases.

9) **Begin the process early**. Early adopters report that they need two or three hours per lease to analyze and extract the data. Adding to the challenge, many government finance professionals wear many hats, and dealing with financial matters may be only a small part of their responsibilities. Be sure to keep the resulting information very organized and accessible and also keep in mind the new information that will be required for footnote disclosures.

10) **Start learning and keep learning**. Understanding the new standards is a steep learning curve. You'll need to dedicate time and resources for your team to get up to speed.

APPENDIX