



Reporting and insights from 2021 audit: City of Black River Falls

December 31, 2021

Executive summary

May 26, 2022

To the City Council
City of Black River Falls

We have completed our audit of the financial statements of the City of Black River Falls, Wisconsin (the City) for the year ended December 31, 2021, and have issued our report thereon dated May 26, 2022. This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of your City's operating environment and our risk assessment procedures. We strive to provide you clear, concise communication throughout the audit process and of the final results of our audit.

Additionally, we have included information on key risk areas the City of Black River Falls should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

If you have questions at any point, please connect with us:

- Kimberly M. Shult, Partner: kimberly.shult@bakertilly.com or +1 (612) 876 4912
- Nick Goeman, Senior Manager: nick.goeman@bakertilly.com or +1 (612) 876 4868

Sincerely,

Baker Tilly US, LLP



Kimberly M. Shult, CPA

Responsibilities

Our responsibilities

As your independent auditor, our responsibilities include:

- Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance.
- Assessing the risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of the City's internal control over financial reporting.
- Performing appropriate procedures based upon our risk assessment.
- Evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management.
- Forming and expressing an opinion based on our audit about whether the financial statements prepared by management, with the oversight of those charged with governance:
 - Are free from material misstatement
 - Present fairly, in all material respects and in accordance with accounting principles generally accepted in the United States of America
- Performing tests related to compliance with certain provisions of laws, regulations, contracts and grants, as required by *Government Auditing Standards*.
- Our audit does not relieve management or those charged with governance of their responsibilities.

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of those charged with governance, including:

- Internal control matters
- Qualitative aspects of the City's accounting practice including policies, accounting estimates and financial statement disclosures
- Significant unusual transactions
- Significant difficulties encountered
- Disagreements with management
- Circumstances that affect the form and content of the auditors' report
- Audit consultations outside the engagement team
- Corrected and uncorrected misstatements
- Other audit findings or issues

Audit status

Significant changes to the audit plan

There were no significant changes made to either our planned audit strategy or to the significant risks and other areas of emphasis identified during the performance of our risk assessment procedures.

Audit approach and results

Planned scope and timing

Audit focus

Based on our understanding of the City and environment in which you operate, we focused our audit on the following key areas:

- Key transaction cycles
- Areas with significant estimates

Our areas of audit focus were informed by, among other things, our assessment of materiality. Materiality in the context of our audit was determined based on specific qualitative and quantitative factors combined with our expectations about the City's current year results.

Key areas of focus and significant findings

Significant risks of material misstatement

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. Within our audit, we focused on the following areas below.

Significant risk areas	Testing approach	Conclusion
Management override of controls	Incorporate unpredictability into audit procedures, emphasize professional skepticism and utilize audit team with industry expertise	Procedures identified provided sufficient evidence for our audit opinion
Inadequate segregation of duties	Incorporate unpredictability into audit procedures, emphasize professional skepticism, utilize audit team with industry expertise and performance of sufficient substantive procedures	Procedures identified provided sufficient evidence for our audit opinion
Improper revenue recognition due to fraud	Confirmation or validation of certain revenues supplemented with detailed predictive analytics based on non-financial data and substantive testing of related receivables	Procedures identified provided sufficient evidence for our audit opinion

Other areas of emphasis

We also focused on other areas that did not meet the definition of a significant risk, but were determined to require specific awareness and a unique audit response.

Other areas of emphasis		
Cash and investments	Revenues and receivables	General disbursements
Payroll	Pension liabilities/assets	Long-term debt
Capital assets including infrastructure	Net position and fund balance calculations	Financial reporting and required disclosures

Internal control matters

We considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements. We are not expressing an opinion on the effectiveness of the City's internal control.

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 combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We identified the following deficiencies as material weaknesses:

– Inadequate segregation of duties

A properly designed system of internal control includes adequate staffing as well as policies and procedures to properly segregate duties. This includes systems that are designed to limit the access or control of any one individual to your government's assets or accounting records, and to achieve a higher likelihood that errors or irregularities in your accounting processes would be discovered by your staff in a timely manner.

At this time, due to staffing and financial limitations, the proper internal controls are not in place to achieve adequate segregation of duties. As a result, errors, irregularities or fraud could occur as part of the financial reporting process that may not be discovered by someone in your organization. Therefore, we are reporting a material weakness related to the internal control environment.

– Missing key controls

There are certain controls that are not currently in place related to significant transaction cycles. As a result, there is a risk that erroneous or unauthorized transactions or misstatements could occur without the knowledge of management or the governing body. Our recommendations for strengthening controls are listed below.

Controls over accounts payable/disbursements

- Persons processing accounts payable and those with access to the system should be separate from those ordering or receiving goods or services.
- There should be a process for reviewing, recording, and approving retainages at year-end.

Controls over payroll

- Persons preparing the payroll should be independent of other personnel duties or restricted from access to the payroll account.
- Year-end accrued payroll should be recorded to ensure proper fiscal year cutoff and this calculation should be reviewed and approved by an appropriate individual.

Controls over property taxes

- There should be a formal process to prepare and approve journal entries to record taxes receivable and the tax settlements.
- Bank reconciliations for the tax account should be performed by someone independent of the tax collection process.

Controls over monthly and year-end accounting

- Adjusting journal entries and supporting documentation should be reviewed and approved by an appropriate person who is not the original preparer.
- Account reconciliations prepared throughout the year should be performed by someone independent of processing transactions in the account.
- Year-end reconciliations should be reviewed and approved by someone other than the preparer.

Since the controls listed above or other compensating controls are not currently in place, errors or irregularities could occur as part of the accounting processes that might not be discovered by management or the governing body. Therefore, the absence of these controls is considered to be a material weakness.

We recommend that a designated employee review the segregation of duties, risks, and these potential controls and determine whether additional controls should be implemented. This determination should take into consideration a cost / benefit analysis.

- Financial statement close process

Properly designed systems of internal control provide your organization with the ability to process and record accurate monthly and year-end transactions and annual financial reports.

Our audit includes a review and evaluation of the internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- There is adequate staffing to prepare financial reports throughout the year and at year-end.
- Material misstatements are identified and corrected during the normal course of duties.
- Complete and accurate financial statements, including footnotes, are prepared.
- Financial reports are independently reviewed for completeness and accuracy.
- Financial reporting software is not based on Microsoft Access, which is susceptible to data manipulation.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered a material weakness surrounding the preparation of financial statements and footnotes, adjusting journal entries identified by the auditors, and an independent review of financial reports. Management has not prepared financial statements that are in conformity with generally accepted accounting principles. In addition, material misstatements in the general ledger were identified during the financial audit.

Other comments and recommendations

Budget Requirements

Wisconsin state statutes regarding municipal budgeting specify the information that should be incorporated into the class 1 notice regarding the budget public hearing and the budget document adopted by the City.

The City's budget notice should include the following items:

1. Summary budget for the proposed budget, the budget in effect and the percentage change between the budget of the current year and the proposed budget. A summary budget would include:
 - All expenditures by major expenditure category for general fund
 - All revenues by major revenue source for general fund
 - Any financing source and use not included in the first two bullet points above
 - All beginning and year-end fund balances for all funds
 - Total revenues and expenditures for each fund
 - Summary totals of revenues and expenditures for all funds
 - Local property taxes for each fund and the total for all funds
 - List of budget increases and decreases due to new or discontinued activities (if any)
2. The place where the budget, in detail, is available for public inspection.
3. The time and place for holding the public hearing.

The budget document is required to include these items:

1. List all existing indebtedness.
2. Actual revenues and expenditures of the preceding year.
3. Actual revenues and expenditures for not less than the first six months of the current year and estimated revenues and expenditures for the balance of the year.
4. All anticipated revenue from all sources and all proposed appropriations for the ensuing year (proposed budget).
5. All anticipated unexpended or unappropriated balances and surpluses for each fund.

The City should review state statutes pertaining to municipal budgets. When preparing the City's next budget, you should include the items mentioned above.

The City's published 2022 summary budget did not include the beginning and year-end fund balances, total revenues and expenditures, and summary totals of revenues and expenditures of all funds (including utilities and ambulance). The detailed budget that was approved did not list all existing indebtedness, did not include actual revenues and expenditures of the preceding year for all funds, did not include all actual revenues and expenditures for at least the first six months of 2021 and the estimated revenues and expenditures for the balance of the year, and did not include all anticipated unexpended or unappropriated balances and surpluses in each fund.

We can help the City comply with the requirements by reviewing your documents prior to publication and adoption.

Decentralized Cash Collections

Many governments collect cash at numerous decentralized locations that are separate from the primary system of accounting procedures and controls. The opportunity for theft is often higher at those locations because one person is frequently involved in most, if not all, aspects of a transaction (i.e. lack of segregation of duties).

Examples in your government that fit this situation include: police department, library, and aquatic center.

Management is responsible for designing and implementing controls and procedures to detect and prevent fraud. As a result, we recommend that management review its decentralized cash collection procedures and controls on a periodic basis and make changes as necessary to strengthen the internal control environment. Reviewing the adequacy of the controls is a responsibility of the governing body.

Below are example procedures and controls to help mitigate the risk of loss at decentralized cash collection points:

- Implement a centralized receipting process with adequate segregation of duties
- For cash collections, ensure pre-numbered receipts are being used and all receipts in the sequence are being reviewed by someone other than the person receipting the cash and receipts tie to deposits
- Perform surprise procedures at decentralized locations (cash counts, walkthrough of processes, etc.)
- Require regular cash deposits to minimize collection on-hand
- Limit the number of separate bank accounts
- Segregate duties as much as possible – the person receipting cash should be separate from the person preparing deposits and the person reconciling bank accounts should be separate from the cash collection activity
- Perform month-to-month or year-to-year comparisons to look for unusual changes in collections
- If collecting from a drop box site, consider sending two people to collect the funds, especially during peak times

As always, the cost of controls and staffing must be weighed against the benefits of safeguarding your assets.

Information for TIF Audits

The City presently has six Tax Incremental Financing (TIF) Districts which are reported as capital project funds in the financial statements. In addition to the annual financial statement audit coverage, each district is also required by state statute to have separate TIF compliance audits throughout their lifetimes. You are required to have a detailed audit within 12 months of:

1. 30% of project expenditures are made.
2. The end of the expenditure period (100% audit).
3. The termination of the district.

In addition to being in compliance with state statutes, timely periodic compliance audits are important due to records retention. Many of our clients follow a policy of destroying old records, some after seven or ten years, depending on the type of record. Since a 100% TIF audit may not be required until a later date, this could cause audit problems. To make the audit process go as smooth as possible, you will need to keep your general ledger and related journals and supporting documents until each of the compliance audits is complete. As a best practice, we recommend keeping a TIF file with all of the official documents (i.e. project plans, amendments, notices, resolutions, etc.) and financial records for each TIF.

Currently, TIF #3 and TIF #4 are overdue for a 30% audit.

Required communications

Qualitative aspect of accounting practices

- Accounting policies: Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing accounting policies was not changed during 2021. We noted no transactions entered into by the City during the year for which accounting policies are controversial or for which there is a lack of authoritative guidance or consensus or diversity in practice.
- Accounting estimates: Accounting estimates, including fair value 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, the degree of subjectivity involved in their development and because of the possibility that future events affecting them may differ significantly from those expected. The following estimates are of most significance to the financial statements:

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Net pension asset and related deferrals	Evaluation of information provided by the Wisconsin Retirement System	Reasonable in relation to the financial statements as a whole
Depreciation	Evaluate estimated useful life of the asset and original acquisition value	Reasonable in relation to the financial statements as a whole
Allowance for uncollectible ambulance receivables	Evaluation of collectability of individual accounts and analysis of historical loss levels	Reasonable in relation to the financial statements as a whole
Allowance for doubtful accounts	Evaluation of collectability of individual amounts based on knowledge of foreclosures and bankruptcies	Reasonable in relation to the financial statements as a whole
Landfill post-closure liability	Evaluation of estimates of future monitoring and related operating and maintenance costs	Reasonable in relation to the financial statements as a whole

There have been no significant changes made by management to either the processes used to develop the particularly sensitive accounting estimates, or to the significant assumptions used to develop the estimates, noted above.

- Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.

Significant unusual transactions

There have been no significant transactions that are outside the normal course of business for the City or that otherwise appear to be unusual due to their timing, size or nature.

Significant difficulties encountered during the audit

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

Disagreements with management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Audit report

There have been no departures from the auditors' standard report.

Audit consultations outside the engagement team

We encountered no difficult or contentious matters for which we consulted outside of the engagement team.

Uncorrected misstatements and corrected misstatements

Professional standards require us to accumulate misstatements identified during the audit, other than those that are clearly trivial, and to communicate accumulated misstatements to management. The schedule within the Appendix summarizes the uncorrected misstatements, other than those that are clearly trivial, that we presented to management and the corrected misstatements that, in our judgment, may not have been detected except through our auditing procedures. Some of the corrected misstatements are considered material. The internal control matters section of this report describes the effects on the financial reporting process indicated by the uncorrected misstatements and corrected misstatements, other than those that we consider to be of a lesser magnitude than significant deficiencies and material weaknesses.

Management has determined that the effects of the uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

Other audit findings or issues

We encountered no other audit findings or issues that require communication at this time.

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

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing or accounting matters.

Written communications between management and Baker Tilly

The Appendix includes copies of other material written communications, including a copy of the management representation letter.

Compliance with laws and regulations

We did not identify any non-compliance with laws and regulations during our audit.

Fraud

We did not identify any known or suspected fraud during our audit.

Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of the City's ability to continue as a going concern for a reasonable period of time but no less than 12 months from the date the financial statements are issued or available to be issued, including the effects on the financial statements and the adequacy of the related disclosures, and the effects on the auditor's report. No such matters or conditions have come to our attention during our engagement.

Independence

We are not aware of any relationships between Baker Tilly and the City that, in our professional judgment, may reasonably be thought to bear on our independence.

Related parties

We did not have any significant findings or issues arise during the audit in connection with the City's related parties.

Other matters

We applied certain limited procedures to the 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 the 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.

Nonattest services

The following nonattest services were provided by Baker Tilly:

- Financial statement preparation
- Adjusting journal entries (including preparation of account reconciliations and depreciation schedules)
- Utility rate consulting
- ARPA consultation, as requested

In addition, we prepared GASB No. 34 conversion entries which are summarized in the “Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position” and the “Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities” in the financial statements.

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

City Council resources

Visit our resource page for regulatory updates, trending challenges and opportunities in your industry and other timely updates.

Visit the resource page at <https://www.bakertilly.com/insights/audit-committee-resource-page>.

Management representation letter



BLACK RIVER FALLS, WISCONSIN

A Fine Place to Raise Your Family • A Dynamic Location for Your Business



Baker Tilly US, LLP
3410 Oakwood Mall Drive, Suite 200
Eau Claire, WI 54701

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Black River Falls as of December 31, 2021 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City of Black River Falls and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

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 the 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, 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.
- 2) The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and all component units required by accounting principles generally accepted in the United States of America 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, if any, are reasonable.
- 6) All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 7) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 8) We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
- 9) There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
- 10) Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) 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 financial records and related data, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- 13) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
- 15) We have no knowledge of 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.
- 16) We have disclosed to you the names of our related parties and all the related party relationships and transactions, including any side agreements.

Other

- 17) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 18) We have a process to track the status of audit findings and recommendations.
- 19) We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 20) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
- 21) The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 22) We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local 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.
- 23) There are no:
 - a) Violations or possible violations of budget ordinances, federal, state, and local laws or 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, except those already disclosed in the financial statement, if any.

- b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
 - c) Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
 - d) Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - e) Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
- 24) In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
- a) Financial statement preparation
 - b) Adjusting journal entries and GASB 34 conversion entries (including preparation of account reconciliations and depreciation schedules)
 - c) Utility rate consulting
 - d) ARPA consultation, as requested
- None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
- 25) The City of Black River Falls 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.
- 26) The City of Black River Falls has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
- 27) 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, if any. Component units have been properly presented as either blended or discrete.
- 28) The financial statements properly classify all funds and activities.
- 29) All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 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.
- 30) 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.
- 31) The City of Black River Falls has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

- 32) Provisions for uncollectible receivables, if any, have been properly identified and recorded.
- 33) 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.
- 34) Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
- 35) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 36) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
- 37) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
- 38) We believe that the estimate made for the pollution remediation liability is in accordance with GASB 49 and reflects all known available facts at the time it was recorded.
- 39) Tax-exempt bonds issued have retained their tax-exempt status.
- 40) We have appropriately disclosed the City of Black River Falls' 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 are available and have determined that net position were properly recognized under the policy. We have also disclosed our 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.
- 41) 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.
- 42) With respect to the supplementary information, (SI):
 - a) We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, 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 SI 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.
 - b) If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

- 43) We assume responsibility for, and agree with, the information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.
- 44) All activities that meet the criteria in GASB Statement No. 84 for presentation as fiduciary activities have been identified and presented as such.
- 45) Any direct borrowings, direct placements, lines of credit or debt default clauses have been identified and properly disclosed.
- 46) We are not aware of any material asset retirement obligations associated with our long-lived assets (i.e., asbestos or other hazardous material removal costs) that are required to be recorded in accordance with GASB Statement No. 83.
- 47) Any interest cost that has been incurred before the end of a construction period has been recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.
- 48) We have evaluated the potential OPEB liabilities, deferred outflows, and deferred inflows related to the Wisconsin Department of Employee Trust Funds Local Retiree Life Insurance Program in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and believe that they are not material to the financial statements.
- 49) The auditing standards define an annual report as "a document, or combination of documents, typically prepared on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements." Among other items, an annual report contains, accompanies, or incorporates by reference the financial statements and the auditor's report thereon. We do not prepare an annual report.

Sincerely,

City of Black River Falls

Signed: _____

Signed: _____

Date: _____

5/26/2022

City of Black River Falls
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

December 31, 2021

	Financial Statements Effect - Debit (Credit) to Financial Statement Total									
	<u>Current Assets</u>	<u>Noncurrent Assets</u>	<u>Total Assets/ Deferred Outflows</u>	<u>Current Liabilities</u>	<u>Noncurrent Liabilities</u>	<u>Total Liabilities/ Deferred Inflows</u>	<u>Total Net Position/ Fund Balances</u>	<u>Total Revenues</u>	<u>Total Expenses/ Expenditures</u>	<u>Change in Net Position/ Fund Balances</u>
Governmental Activities	-	-	89,122	-	-	(204,573)	115,451	-	(172,250)	(172,250)
Business-Type Activities	-	-	-	-	-	(182,224)	182,224	-	54,487	54,487
Major Fund - General Fund	-	-	21,077	-	-	-	(21,077)	39,415	-	39,415
Major Fund - Electric Utility	-	-	79,386	-	(182,224)	(182,224)	102,838	-	30,587	30,587
Major Fund - Water Utility	-	-	25,608	(10,316)	(58,781)	(69,097)	43,489	-	(2,189)	(2,189)
Major Fund - Sewer Utility	-	-	30,671	(20,763)	(70,402)	(105,777)	75,106	-	3,820	3,820
Major Fund - Ambulance	-	8,773	8,773	-	(20,137)	(20,137)	11,364	-	1,026	1,026

Accounting changes relevant to the City of Black River Falls

Future accounting standards update

GASB Statement Number	Description	Potentially Impacts you	Effective Date
87	Leases	✓	12/31/22*
91	Conduit Debt	✓	12/31/22*
92	Omnibus 2020	✓	12/31/22*
93	Replacement of Interfund Bank Offered Rates	✓	12/31/22*
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	✓	12/31/23
96	Subscription-Based Information Technology Arrangements	✓	12/31/23
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	✓	12/31/22
99	Omnibus 2022	✓	12/31/23

*The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87 which was postponed by one and a half years. The effective date reflected above is the required revised implementation date.

Further information on upcoming [GASB pronouncements](#).

Ready or not – the new lease standard is here!

GASB's new single model for lease accounting is effective for next year's audit (fiscal years ending June 30, 2022 and later). This standard requires governments to identify and evaluate contracts that convey control of the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction. Contracts meeting the criteria for control, term and other items within the standard will result in recognizing a right to use asset and lease liability or a receivable and deferred inflow of resources. The standard specifies that leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation.

The implementation process can be broken down into a four-step methodology:



Now is the time to evaluate where your government is in this process and the timeline to complete implementation. The third step for lease evaluation, data extraction and review is typically the most time-consuming step; organizations should begin this process well before year end to ensure adequate lead time. A key decision that will need to be made is whether a lease administration software package is necessary. Depending on the volume and complexity of your lease activity, spreadsheets may not be sufficient to track and calculate all the required information.

We are available to discuss this further and help you develop an action plan. Baker Tilly also has complimentary resources available online including:

- GASB 87 lease identification questionnaire
- GASB 87 lease assistance tool
- Variety of GASB 87 podcasts and articles

Access tools and learn more about [GASB 87](#).

Preparing for the new conduit debt reporting

Conduit debt includes arrangements where there are three separate parties involved including a third party that is obligated for payment, a debt holder or lender and an issuing party which is often a government. This standard provides additional criteria for identifying and classifying conduit debt with the intent of providing consistency in how the debt is recorded and reported in governmental financial statements. The City should identify any existing debt arrangements involving third-party obligors and evaluate how those arrangements will be reported under the new standard in order to determine the potential impact of this standard on future financial reporting.

Determining if GASB 94 applies for your organization

GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* provides guidance related to public-private and public-public partnerships (PPP) and availability payment arrangements (APA).

A PPP is an arrangement in which an entity contracts with an operator to provide public services by conveying control of the right to operate or use infrastructure or other capital assets. A common example of PPP is a service concession arrangement.

An APA is an arrangement in which an entity compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an asset.

The City should start to identify any contracts that could meet either definition to ensure they are reviewed for applicability and accounted for correctly when the standard is effective. Initial steps include reviewing contracts that didn't meet the definition of a lease under GASB 87 and identifying any other agreements where the organization contracts with or partners with another entity to provide services.

Future accounting for subscription-based IT arrangements

Subscription-based IT arrangements include contracts that convey control of the right to use another party's IT software. It would not include any licensing arrangements that provide a perpetual license, which would still be accounted for as an intangible asset. Subscription-based IT arrangements are becoming more and more popular with IT vendors. This standard mirrors the new lease standard. The City will be able to utilize the systems put into place to implement the lease standard to properly account for these contracts. Common examples of these contracts in the industry include:

- Leasing space in the cloud
- GIS systems
- SCADA systems
- Some work order or inventory systems as well as some general ledger or billing systems

The City should work with its IT department and department managers to determine a population listing of contracts that would fall under this standard to determine the potential future impact to financial reporting.

Uncorrected misstatements

Financial statement effects – debit (credit) to financial statement total:

Opinion unit	Total assets/ deferred outflows	Total liabilities/ deferred inflows	Net position/ fund balance	Total revenues	Total expenses/ expenditures	Change in net position/fund balance
Governmental activities	\$ 89,122	\$ (204,573)	\$ 115,451	\$ -	\$ (172,250)	\$ (172,250)
Business-Type Activities	-	(182,224)	182,224	-	54,487	54,487
Major Governmental Fund - General Fund	21,077	-	(21,077)	39,415	-	39,415
Major Enterprise Fund - Electric Utility	79,386	(182,224)	102,838	-	30,587	30,587
Major Enterprise Fund - Water Utility	25,608	(69,097)	43,489	-	(2,189)	(2,189)
Major Enterprise Fund - Sewer Utility	30,671	(105,777)	75,106	-	3,820	3,820
Major Enterprise Fund - Ambulance	8,773	(20,137)	11,364	-	1,026	1,026

Corrected misstatements

Number	Date	Account Number	Account Name	Debit	Credit
A01	12/31/2021	100-00-34000-000-000 100	FUND BALANCE - UNDESIGNATED	1,670.00	
A01	12/31/2021	100-00-46100-000-000 100	MISC REVENUE GENERAL GOVT		-1,670.00
A01	12/31/2021	205-00-34000-000-000 205	AQUA FUND BALANCE-UNDESIGNATED	126.00	
A01	12/31/2021	205-00-48519-000-000 205	AQUATIC MISC SALES		-126.00
A01	12/31/2021	206-00-34000-000-000 206	FUND BALANCE - UNDESIGNATED	50.00	
A01	12/31/2021	206-00-48525-000-000 206	JC FAIR PARK REVENUE		-50.00
A01	12/31/2021	208-00-34000-000-000 208	FUND BALANCE - UNDESIGNATED	100.00	
A01	12/31/2021	208-00-48527-000-000 208	JACKSON CTY NEW ARENA REVENUE		-100.00
A01	12/31/2021	209-00-34000-000-000 209	FUND BALANCE - UNDESIGNATED	25.00	
A01	12/31/2021	209-00-48401-000-000 209	LUNDA PARK REVENUE		-25.00
To move voided checks to miscellaneous revenue instead of in fund balance.					
A02	12/31/2021	200-00-26000-000-000 200	UNEARNED REVENUE		-170,108.00
A02	12/31/2021	200-00-42000-000-000 200	LFRF REVENUE	170,108.00	
To move unspent portion of ARPA funding to unearned revenue.					
A03	12/31/2021	405-00-12101-000-000 405	TAXES RECEIVABLE		-2,656.00
A03	12/31/2021	405-00-26000-000-000 405	DEFERRED REVENUE - TAX ROLL	2,656.00	
To remove taxes receivable and related deferred revenue for TIF #5 as it was set up in error in 2020.					
A04	12/31/2021	100-00-12611-000-000 100	S/A 2017 - 2018 RECEIVABLE	996.00	
A04	12/31/2021	100-00-12630-000-000 100	S/A 2018 - 2019 RECEIVABLE	250.00	
A04	12/31/2021	100-00-12631-000-000 100	S/A 2019 - 2020 RECEIVABLE	250.00	
A04	12/31/2021	100-00-12632-000-000 100	S/A 2020 - 2021 RECEIVABLE	19,799.00	
A04	12/31/2021	100-00-26013-000-000 100	DEF REV 2017/2018 TAX YEAR	777.00	
A04	12/31/2021	100-00-26014-000-000 100	DEF REV 2018/2019 TAX YEAR	260.00	
A04	12/31/2021	100-00-41110-000-000 100	GENERAL PROPERTY TAX		-19,832.00
A04	12/31/2021	100-00-42000-000-000 100	SPECIAL ASSESSMENTS		-1,037.00
A04	12/31/2021	100-00-42000-000-000 100	SPECIAL ASSESSMENTS		-1,463.00
To adjust special assessments receivable to actual per the County confirmation.					
A05	12/31/2021	100-00-34000-000-000 100	FUND BALANCE - UNDESIGNATED	21,505.00	
A05	12/31/2021	100-00-34001-000-000 100	FUND BALANCE - DESIGNATED		-21,505.00
To adjust designated fund balance to actual (to agree to specific bank account balances at year-end).					

Number	Date	Account Number	Account Name	Debit	Credit
A06	12/31/2021	100-00-41110-000-000 100	GENERAL PROPERTY TAX	86,715.00	
A06	12/31/2021	100-00-48920-000-000 100	TRANSFER IN		-86,715.00
To move property tax revenue related to the fire department out of General Fund property tax revenue account.					
A07	12/31/2021	299-00-14510-000-000 299	LOANS RECEIVABLE		-243.00
A07	12/31/2021	299-00-14510-000-000 299	LOANS RECEIVABLE		-18,769.00
A07	12/31/2021	299-00-14511-000-000 299	ALLOWANCE-UNCOLLECTIBLE LOANS	18,769.00	
A07	12/31/2021	299-00-26101-000-000 299	DEFERRED REV - RES REHAB ACT	243.00	
A07	12/31/2021	299-00-26101-000-000 299	DEFERRED REV - RES REHAB ACT	18,769.00	
A07	12/31/2021	299-00-26102-000-000 299	ALLOW-UNCOLLECTBL LOANS DEF REV		-18,769.00
To record current year residential rehabilitation loan activity.					
A08	12/31/2021	100-00-48920-000-000 100	TRANSFER IN	348.00	
A08	12/31/2021	100-00-53510-100-000 100	AIRPORT WAGES		-348.00
A08	12/31/2021	203-00-34000-000-000 203	LUNDA FUND BAL - UNDESIGNATED	348.00	
A08	12/31/2021	203-00-59000-200-000 203	TRANSFER OUT		-348.00
A08	12/31/2021	400-00-57353-200-000 400	WINNEBAGO & VAN BUREN 2021	1.00	
A08	12/31/2021	400-00-59000-000-000 400	TRANSFER OUT		-1.00
To remove fund 203 activity as that fund was closed out in a prior year.					
A09	12/31/2021	100-00-48920-000-000 100	TRANSFER IN	300,000.00	
A09	12/31/2021	100-00-59000-200-000 100	TRANSFER OUT		-300,000.00
To move proceeds from cashing out a CD to the pooled cash checking account.					
A10	12/31/2021	100-00-15100-000-000 100	DUE FROM ELECTRIC DEPARTMENT		-28,599.00
A10	12/31/2021	100-00-15101-000-000 100	DUE FROM WATER DEPARTMENT		-14,398.00
A10	12/31/2021	100-00-15102-000-000 100	DUE FROM SEWER DEPARTMENT	56,337.00	
A10	12/31/2021	100-00-41310-000-000 100	TAXES-MUNICIPAL UTILITIES	36,843.00	
A10	12/31/2021	100-00-47400-000-000 100	SEWER MAIN MAINTENANCE		-58,488.00
A10	12/31/2021	100-00-51933-200-000 100	PROPERTY/LIABILITY INSURANCE	8,305.00	
To record the amounts due to the City from the utilities as of 12/31/2021.					
A11	12/31/2021	202-00-14517-000-000 202	Due from Integrity Audit Tax	8,000.00	
A11	12/31/2021	202-00-26000-000-000 202	DEFERRED REVENUES		-8,000.00
To record COVID-19 micro-loan issued during 2021.					

Number	Date	Account Number	Account Name	Debit	Credit
A12	12/31/2021	100-00-13100-000-000 100	ACCTS RECEIVABLE/SUNDRY	17,300.00	
A12	12/31/2021	100-00-21100-000-000 100	SUNDRY ACCOUNTS PAYABLE		-15,934.00
A12	12/31/2021	100-00-41210-000-000 100	MOTEL TAXES		-1,366.00
A12	12/31/2021	206-00-12206-000-000 206	JC FAIR PARK SUNDRY A/R	6,056.00	
A12	12/31/2021	206-00-46741-000-000 206	JC FAIR PARK ROOM TAX REVENUE		-6,056.00
A12	12/31/2021	208-00-12208-000-000 208	NEW ARENA SUNDRY A/R	6,056.00	
A12	12/31/2021	208-00-46742-000-000 208	JC NEW ARENA ROOM TAX REVENUE		-6,056.00
A12	12/31/2021	209-00-13100-000-000 209	LUNDA PARK ACCTS RECEIV/SUNDRY	4,037.00	
A12	12/31/2021	209-00-46743-000-000 209	LUNDA PARK ROOM TAX REVENUE		-4,037.00

To record 4th quarter room tax receivable and related payable.

A13	12/31/2021	100-00-15003-000-000 100	FIRE DEPT RESERVE TRUST		-389,841.00
A13	12/31/2021	100-00-15003-100-000 100	TEMP INVESTMENT - FD RESERVE		-32,092.00
A13	12/31/2021	100-00-59000-200-000 100	TRANSFER OUT	421,933.00	
A13	12/31/2021	196-00-15003-000-000 196	FIRE DEPT RESERVE TRUST	389,841.00	
A13	12/31/2021	196-00-15003-100-000 196	TEMP INVESTMENT - FD RESERVE	32,092.00	
A13	12/31/2021	196-00-48920-000-000 196	TRANSFER IN		-421,933.00

To move fire department reserve trust and investment accounts to fund 196.

A14	12/31/2021	400-00-21100-000-000 400	SUNDRY ACCOUNTS PAYABLE		-2,668.00
A14	12/31/2021	400-00-57331-200-000 400	STREET CONSTRUCTION OUTLAY	2,668.00	
A14	12/31/2021	408-00-21100-000-000 408	Accounts Payable		-19,307.00
A14	12/31/2021	408-00-56000-000-000 408	OTHER EXPENSE	19,091.00	
A14	12/31/2021	408-00-56000-000-000 408	OTHER EXPENSE	216.00	

To record Short Elliot Hendrickson accounts payable for services completed through 12/31/2021.

A15	12/31/2021	196-00-16000-000-000 196	PREPAID INSURANCE		-8,717.00
A15	12/31/2021	196-00-47323-000-000 196	RURAL FIRE REIMBURSEMENT	8,717.00	

To eliminate prepaid insurance and net Rural Fire reimbursement revenue and related expenditures to \$0.

A16	12/31/2021	196-00-21100-000-000 196	VOUCHERS PAYABLE		-5,550.00
A16	12/31/2021	196-00-47324-000-000 196	EMS REIMBURSEMENT	5,550.00	

To record amount charged by the Fire Department to EMS twice for 4th quarter wages/benefits as a liability.

A17	12/31/2021	404-00-58100-610-000 404	PRINCIPAL L/T DEBT		-69.00
A17	12/31/2021	404-00-58200-620-000 404	INTEREST L/T DEBT	69.00	

To adjust split between principal and interest for Waumandee State Bank loan #809523.

Number	Date	Account Number	Account Name	Debit	Credit
X01	12/31/2021	650-16500-000 650	Restricted Net Pension Asset	87,815.00	
X01	12/31/2021	650-19952-000 650	Deferred Outflow - GASB 68	12,577.00	
X01	12/31/2021	650-19952-000 650	Deferred Outflow - GASB 68	68,842.00	
X01	12/31/2021	650-19952-000 650	Deferred Outflow - GASB 68		-59,543.00
X01	12/31/2021	650-19952-000 650	Deferred Outflow - GASB 68		-2,818.00
X01	12/31/2021	650-19952-000 650	Deferred Outflow - GASB 68		-215.00
X01	12/31/2021	650-29953-000 650	Deferred Inflow - GASB68	28,937.00	
X01	12/31/2021	650-29953-000 650	Deferred Inflow - GASB68		-63,567.00
X01	12/31/2021	650-29953-000 650	Deferred Inflow - GASB68		-540.00
X01	12/31/2021	650-53250-000 650	Full Time EMT		-71,488.00
To record current year GASB 68 activity.					
X02	12/31/2021	650-25100-000 650	Compensated Absences - One Yr.		-10,488.00
X02	12/31/2021	650-52300-100 650	Ambulance/Wages	10,488.00	
To adjust accrued sick and vacation to actual at year-end.					
X03	12/31/2021	650-35000-000 650	Accumulated depreciation		-86,481.00
X03	12/31/2021	650-57250-000 650	Depreciation expense	86,481.00	
To record current year depreciation expense.					
X04	12/31/2021	650-12000-000 650	Accounts Receivable		-37,138.00
X04	12/31/2021	650-12001-000 650	Accounts ReceivableSub	114,107.00	
X04	12/31/2021	650-12500-000 650	Allowance for Doubtful Account		-24,139.00
X04	12/31/2021	650-54500-000 650	BAD DEBT EXPENSES		-52,830.00
To adjust EMS receivables and allowance to actual at year end.					
X05	12/31/2021	650-16000-000 650	Inventory Asset-1		-3,649.00
X05	12/31/2021	650-34100-002 650	Opening Balance Equity	3,613.00	
X05	12/31/2021	650-53800-000 650	Operating Supplies & Expenses	36.00	
To reverse client entry to inventory and equity and to move purchase to expense account from inventory.					
X06	12/31/2021	650-12001-000 650	Accounts ReceivableSub		-6,844.00
X06	12/31/2021	650-21100-001 650	Accounts Payable Sub	6,844.00	
To clear out "Accounts PayableSub" account to accounts receivable.					

Number	Date	Account Number	Account Name	Debit	Credit
X07	12/31/2021	650-11117-000 650	Temp Investment-EMS		-5,391.00
X07	12/31/2021	650-48110-000 650	Interest on Investments	5,391.00	
To adjust EMS investments to actual at year-end.					
X08	12/31/2021	650-53800-000 650	Operating Supplies & Expenses	164.00	
X08	12/31/2021	650-59000-000 650	Operating Transfer Out		-164.00
To clear out operating transfer out account.					
X09	12/31/2021	650-21100-000 650	Accounts Payable		-29,199.00
X09	12/31/2021	650-53600-000 650	Insurance	29,199.00	
To reverse prior year entry X08.					

Two-way audit communications

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - Identify types of potential misstatements.
 - Consider factors that affect the risks of material misstatement.
 - Design tests of controls, when applicable, and substantive procedures.
- c. We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations and provisions of contracts or grant programs. For audits performed in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.
- d. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

Our audit will be performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the governing board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. We anticipate that the City will receive an unmodified opinion on its financial statements.
- e. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- f. Have you had any significant communications with regulators or grantor agencies?
- g. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness and actions of the governing body concerning:

- a. The entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of December or January. Our final financial fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.