



# Reporting and insights from 2022 audit:

City of Mayville

December 31, 2022

# Executive summary

June 8, 2023

To the City Council  
City of Mayville  
15 S. School Street  
Mayville, WI 53050

We have completed our audit of the financial statements of the City of Mayville (the City) for the year ended December 31, 2022, and have issued our report thereon dated June 8, 2023. 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.

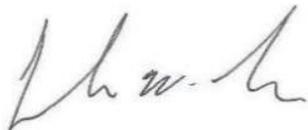
Additionally, we have included information on key risk areas the City of Mayville should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

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

- John Rader, Director: [john.rader@bakertilly.com](mailto:john.rader@bakertilly.com) or +1 (608) 240 2431
- Aaron Galvan, Senior Accountant: [aaron.galvan@bakertilly.com](mailto:aaron.galvan@bakertilly.com) or +1 (608) 240 2684

Sincerely,

Baker Tilly US, LLP



John W. Rader, CPA, Director

THIS COMMUNICATION IS INTENDED SOLELY FOR THE INFORMATION AND USE OF THOSE CHARGED WITH GOVERNANCE, AND, IF APPROPRIATE, MANAGEMENT, AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.

BAKER TILLY US, LLP, TRADING AS BAKER TILLY, IS A MEMBER OF THE GLOBAL NETWORK OF BAKER TILLY INTERNATIONAL LTD., THE MEMBERS OF WHICH ARE SEPARATE AND INDEPENDENT LEGAL ENTITIES.

# 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
- 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
- Implementation of new accounting standards
- Areas of complexity including TIF Districts

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
Improper revenue recognition due to fraud	Confirmation or validation of certain revenues supplemented with detailed predictive analytics based on nonfinancial 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 and OPEB liabilities	Long-term debt and leases
Capital assets including infrastructure	Net position 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 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.
- Bank and investment account reconciliations should be prepared timely each month, prepared by someone independent of processing transactions in the account, and independently reviewed. While bank reconciliations were being prepared during the year, an unknown and changing (plug) reconciling amount was being used to balance, and they were not being reviewed.
- Year-end reconciliations (retainages, receivables, deferrals, payroll, and other accruals) should be reviewed and approved by someone other than the preparer.

#### Controls over TAG Center Receipting

- All adjusting journal entries and supporting documentation for those made for the RecDesk system, should be reviewed and approved by an appropriate person who is not the original preparer.
- There should be segregation between cash collection and access to the TAG Center system.

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.

#### **Library building activity**

We noted during our audit that the financial activity related to the collection of donations and the disbursements for the construction of the new library is not being centralized within the City's financial operations. Instead, it is being accounted for in a separate depository account overseen by the library and the library board. While library's have statutory authority to invest and maintain separate depository and investment accounts, utilizing this account for the payment of invoices bypasses the established, and centralized controls of the City. In addition, it resulted in material entries at year-end to record payables and related capital additions. We recommend the library work with the city to establish alternative procedures for the approval and payment of invoices that are consistent with other city procurement activity.

#### **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.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered 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.

The following material weaknesses, which were identified in the prior years, were remediated during the current year:

- Reconciliations between the RecDesk system used by the TAG Center and the City's general ledger were completed in a timely manner.
- The condition of the financial records was improved from the prior year. While material entries were still made by the auditors for the current year audit, many of the financial areas from the prior year audit (timely posting of invoices to the general ledger, bond proceeds not being recorded, errors on the statement of taxes filed with the county) did not occur as part of the 2022 audit.

## Other comments and recommendations

### Current Year Points

#### Timely Payment of Invoices and Billings

We noted during our testing that the City has not been paying invoices in a timely manner, generally considered to be within 30 days of receipt. In addition, billings for services are not being performed in a timely manner. We recommend the City develop procedures and related controls to ensure that payment of invoices and billings for services are completed in a timely manner.

#### Benefit Payments

The City does not have a procedure in place to cease benefit payments to providers when an employee retires or terminates. Payments for life and health insurance to ETF, and for pension contributions to the Wisconsin Retirement System continued when employees no longer worked for the City. We recommend a procedure be developed to both stop the payments for these benefits upon employee separation from the City, as well as to reconcile monthly statements from ETF and WRS to current listings of active city employees.

#### Charge Accounts

The City maintains charge, or credit accounts with certain vendors for items such as gas, hardware, and food. While these types of arrangements are not unusual in municipalities, a policy governing their use should be established. This policy would take into consideration the following items:

- Which vendors are approved for these types of purchasing arrangements. Consideration should be given to pricing for the protection of city resources.
- At what level of authority will these vendors be approved: Council, Finance Committee, or Comptroller.
- Who will be authorized to utilize each established charge account.
- How will the list of approved users be updated, and how often.
- What are the spending limits at each vendor.
- What will the approval method of these purchases be so that oversight is in place to ensure that only approved users are making charges.
- Will the policy be communicated to vendors to establish an understanding of this purchasing arrangement.

We recommend the City develop a policy and establish controls over these charge accounts.

## **Prior Year Points**

### **Restricted Cash Equipment Account**

The City's TAG Center equipment money market cash account should be adjusted throughout the year to account for additional donations received and the spend down of donations on the intended use of equipment purchases for the TAG Center. As the City purchases equipment for the TAG Center, we would recommend the equipment money market account be adjusted accordingly to fund these purchases.

#### ***Status (12/31/2022)***

This is still applicable.

### **TAG Membership Subsidy**

For the last several years as part of the City's audit, Baker Tilly has tracked and updated the TAG Center Membership Subsidy account for donations received and the use of the subsidy. Entries have been made to record this annual activity for the subsidy and recognize revenue in the appropriate period. To ensure completeness and accuracy of this information, we recommend the City track this activity for the TAG Membership Subsidy throughout the year and record the activity accordingly.

#### ***Status (12/31/2022)***

This is still applicable.

### **Risk of Bank Failures**

Cash deposits and investments held at financial institutions that are uninsured or uncollateralized are subject to a higher degree of risk if a financial institution were to fail. In other words, a portion of a community's deposits or investments could be lost if a bank failure were to occur.

Many communities, including the City of Mayville, obtain additional insurance or collateral above the FDIC limit. Collateral pledged by a financial institution should be reviewed on a regular basis to ensure that:

- Investments backing the collateral are made up of highly-rated securities
- Market value of the collateral equals or exceeds deposits held at the financial institution
- Collateral pledged by the financial institution is held by a third-party

Uninsured or uncollateralized deposits and investments are disclosed in the footnotes to the financial statements and amounted to \$10,273,410 for deposits as of December 31, 2022. We recommend the City work with their financial institutions to determine how to collateralize all deposits and investments throughout the year.

#### ***Status (12/31/2022)***

This is still applicable.

### **Tag's Financial Position**

For several years as part of the City's audit, we have mentioned in this communication letter as well as at council meetings that the TAG Center fund has negative operating cash and a deficit balance in its unrestricted net position.

One of the most useful indicators of the TAG Center's financial position is the amount of operating (nonrestricted) cash it has had to borrow, or advance, from other funds to avoid reporting negative cash at year-end. In the past, financial improvements made for this fund were primarily due to contributions (transfers) from the general fund, as well as continued capital, maintenance, and membership subsidy assistance from the Bachhuber Foundation. The table below shows the amount of cash that the TAG Center fund has had to borrow from other City funds at year-end. The amount increased once again, from 2021 to 2022.

<u>Year</u>	<u>TAG Center Fund Cash</u>
2022	\$ (226,814)
2021	(87,914)
2020	(64,323)
2019	(27,075)
2018	(170,628)
2017	(14,085)
2016	(219,877)
2015	(263,024)
2014	(1,128,179)
2013	(1,580,893)
2012	(1,326,447)
2011	(1,254,787)
2010	(1,148,133)
2009	(1,056,621)

We recommend the City not lose sight of the financial status of the TAG Center, especially after considering all of the progress made over the years.

#### **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: the TAG Center, recreation department, police department, and library.

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 a 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.

# 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 City are described in Note 1 to the financial statements. As described in Note 1, the City changed accounting policies related to leases by adopting Accounting Pronouncement GASB No. 87 in 2022. 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 liability/(asset) and related deferrals	Evaluation of information provided by the Wisconsin Retirement System	Reasonable in relation to the financial statements as a whole
Allowance for doubtful accounts	Evaluation of historical revenues and loss levels with the analysis on collectability of individual amounts	Reasonable in relation to the financial statements as a whole
Depreciation/Amortization	Evaluate estimated useful life of the asset and original acquisition value	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 significant difficulties during the audit. The prior year (December 31, 2021) audit resulted in numerous audit adjustments, including many that impacted cash. Some of those adjustments were incorrectly posted to the general ledger at the conclusion of the prior year audit, resulting in several funds having differences that required a significant amount of time to resolve during this year's 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.

## **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. Management is in agreement with the misstatements we have identified, and they have been corrected in the financial statements. The schedule within the attachments summarizes the material corrected misstatements, that, in our judgment, may not have been detected except through our auditing procedures. The internal control matters section of this report describes the effects on the financial reporting process indicated by the corrected misstatements, other than those that we consider to be of a lesser magnitude than significant deficiencies and material weaknesses.

## **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.

## **Other information in documents containing audited basic financial statements**

The City's audited financial statements are "general purpose" financial statements. General purpose financial statements consist of the basic financial statements that can be used by a broad group of people for a broad range of activities. Once we have issued our audit report, we have no further obligation to update our report for events occurring subsequent to the date of our report. The City can use the audited financial statements in other client prepare documents, such as official statements related to the issuance of debt, without our acknowledgement. Unless we have been engaged to perform services in connection with any subsequent transaction requiring the inclusion of our audit report, as well as to issue an auditor's acknowledgment letter, we have neither read the document nor performed subsequent event procedures in order to determine whether or not our report remains appropriate.

## **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, there were consultations with other accountants regarding financial matters. These have not resulted in any additional entries or litigation that we are aware of.

## **Written communications between management and Baker Tilly**

The attachments include 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 of the financial statements, 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
- Compiled regulatory reports
- Civic Systems software
- Bookkeeping assistance
- Compiled TIF financial statement

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*.

# Reports to those charged with governance

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

June 8, 2023

Baker Tilly US, LLP  
4807 Innovate Ln  
P.O. Box 7398  
Madison, WI 53707-7398

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Mayville as of December 31, 2022 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mayville 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 (GAAP). 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 dated November 15, 2018.
- 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, including those measured at fair value, 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) All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
- 9) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the appropriate accounts.
- 10) 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.
- 11) Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

#### **Information Provided**

- 12) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as 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 City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 13) We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) 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.
- 15) 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. We have not obtained a report from any consultants or outside agencies indicating any instances of fraud.
  - 16) 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.
  - 17) There are no related parties or related party relationships and transactions, including side agreements, of which we are aware.

**Other**

- 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 financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21) We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
- 22) The City has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources or fund balance or net position.
- 23) 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.
- 24) 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.
- 25) In regards to the nonattest services performed by you listed below, we acknowledge our responsibility related to these nonattest services and 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
  - c) Compiled TIF financial statements
  - d) Compiled regulatory reports
  - e) Civic Systems software
  - f) Bookkeeping assistance

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

- 26) The City of Mayville 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.
- 27) The City of Mayville has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
- 28) 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.
- 29) The financial statements include all fiduciary activities required by GASB No. 84.
- 30) The financial statements properly classify all funds and activities.
- 31) 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.
- 32) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
- 33) The City of Mayville has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
- 34) Provisions for uncollectible receivables, if any, have been properly identified and recorded.

- 35) 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.
- 36) Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
- 37) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 38) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
- 39) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
- 40) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
- 41) Tax-exempt bonds issued have retained their tax-exempt status.
- 42) We have appropriately disclosed the City of Mayville'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 are available and have determined that net position were properly recognized under the policy.
- 43) 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.
- 44) 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.
- 45) 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.
- 46) 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.

- 47) We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.
- 48) We have implemented GASB Statement No. 84, *Fiduciary Activities*, and believe that all activities that meet the criteria for presentation as fiduciary activities have been identified and presented as such. In addition, we believe that all required disclosures and other accounting considerations have been identified and properly classified in the financial statements in compliance with the Standard.
- 49) We have implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, and believe that all direct borrowings, direct placements, lines of credit or debt default clauses have been identified and properly disclosed in the financial statements in compliance with the Standard.
- 50) We have reviewed our long-term debt agreements and believe that all terms related to significant events of default with finance-related consequences, termination events with finance-related consequences and subjective acceleration clauses have been properly identified and disclosed.
- 51) We have reviewed existing contracts and determined there are no items requiring accounting or reporting as leases.
- 52) We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.
- 53) 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 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 auditors’ report thereon. We confirm that we do not prepare and have no plans to prepare an annual report.

Sincerely,

City of Mayville

Signed: \_\_\_\_\_

Signed: \_\_\_\_\_

# Client service team



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# Accounting changes relevant to City of Mayville

## Future accounting standards update

GASB Statement Number	Description	Potentially Impacts you	Effective Date
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	✓	12/31/23
96	Subscription-Based Information Technology Arrangements	✓	12/31/23
99	Omnibus 2022	✓	12/31/23
100	Accounting Changes and Error Corrections	✓	12/31/24
101	Compensated Absences	✓	12/31/24

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

### 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 asset. 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 did not 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 utility 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 provider 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.

# Material corrected misstatements

Description	Opinion unit	Amount
To adjust taxes	Capital Projects fund	\$232,776
To adjust for pension amount	TAF fund	\$56,821
To record retainage	Capital projects fund	\$53,566
To adjust tax accounts	General fund	\$6,415,070
To adjust tax accounts	CDA component unit	\$25,808
To adjust tax accounts	All remaining funds	\$250,063
To adjust tax accounts	Debt service fund	\$902,916
To adjust tax accounts	TAG fund	\$110,000
Adjust prepaids account	General fund	\$171,909
Adjust negative cash across funds	Multiple funds	\$382,474
To move capital assets activity out of capital and to utility funds	Capital projects fund	\$125,747
To adjust depreciation	TAG fund	\$291,101
To record payables for building project	Library fund	\$1,547,809
Adjust restricted cash accounts	TAG fund	\$134,532
Create new ARPA special revenue fund	ARPA/General	\$506,621
To record payment in lieu of tax	General fund	\$133,254
Adjust ambulance accounts receivable	General fund	\$112,880
Adjust for TAG subsidy activity	TAG fund	\$37,867
Apply donated funds for capital activity	TAG fund	\$69,547

The remaining misstatements that were identified and corrected by management were not material individually or in the aggregate to the financial statements taken as a whole.

Additional, material entries were noted for the City's water and wastewater utility funds. Those have been communicated in a separate letter to management.

# 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.
- 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

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. We perform preliminary financial audit work during the months of November-December. Our final financial fieldwork is scheduled during February to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and 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.