

# Reporting and insights from 2019 audit:

Village of Shorewood Hills

May 1, 2020



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# Executive summary

We have completed our audit of the financial statements of Village of Shorewood Hills for the year ended December 31, 2019, and have issued our report thereon dated May 1, 2020. 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 Village'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.

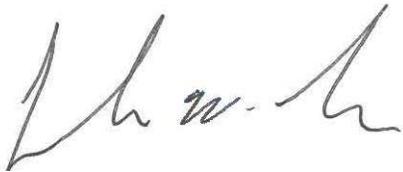
Additionally, we have included information on key risk areas the Village of Shorewood Hills should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

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

- Vicki Hellenbrand, Partner: [Vicki.Hellenbrand@bakertilly.com](mailto:Vicki.Hellenbrand@bakertilly.com) or +1 (608) 240 2387
- John Rader, Firm Director: [John.Rader@bakertilly.com](mailto:John.Rader@bakertilly.com) or +1 (608) 240 2431
- Leah Wipperfurth, Senior Associate: [Leah.Wipperfurth@bakertilly.com](mailto:Leah.Wipperfurth@bakertilly.com) or +1 (608) 240 2346

Sincerely,

Baker Tilly Virchow Krause, LLP

A handwritten signature in black ink, appearing to read "John Rader". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

John Rader, Firm Director

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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.

# Audit objectives



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# Audit objectives

## 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 Village'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*

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

- Qualitative aspects of the Village's accounting practices including policies, accounting estimates and financial statement disclosures
- Significant difficulties encountered
- Disagreements with management
- Corrected and uncorrected misstatements
- Internal control matters
- Significant estimates
- Other findings or issues arising from the audit

## Management's responsibilities

Management	Auditor
 Prepare and fairly present the financial statements	Our audit does not relieve management or those charged with governance of their responsibilities
 Establish and maintain effective internal control over financial reporting and compliance with laws, regulations, contracts and grants	An audit includes consideration of internal control over financial reporting, but not an expression of an opinion on those controls
 Provide us with written representations at the conclusion of the audit	See Appendix B for a copy of management's representations

# Audit status



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# 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



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# Audit approach and results

## Planned scope and timing

### Audit focus

Based on our understanding of the Village 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

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 Village's current year results.

### Implementation of GASB No. 84 reporting fiduciary activities

During the current year, your government implemented GASB Statement No. 84 – *Fiduciary Activities*. This standard was issued to provide a clear foundation and reduce inconsistencies in reporting of fiduciary activities. Implementation of this standard required the evaluation of various activities and application of specific criteria to determine the fiduciary activities that required reporting. As a result of this standard you will note the following changes in your financial statements from prior years:

- Change in the activity that is reported through the tax collection custodial fund
- Presentation of additions and deductions on the statement of changes in fiduciary net position for the tax collection custodial fund

## 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 non-financial data and substantive testing of related receivables	Procedures identified provided sufficient evidence for our audit opinion

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

## Internal control matters

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

- There should be a process to review, record, and approve retainages and year end.

#### **Controls Over Utility Billing**

- Persons involved in the cash receipting process should be independent of other billing duties.

#### **Controls Over Monthly and Year-end Accounting**

- Account reconciliations prepared throughout the year should be performed by someone independent of processing transactions in the account.
- Bank reconciliations should be prepared and reviewed in a timely manner (monthly).

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.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identified any deficiencies as significant deficiencies.

# 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 Village are described in Note I to the financial statements. As described in Note I, the Village changed accounting policies related to Fiduciary Activities and certain disclosures related to debt, including direct borrowings and placements, by adopting GASB Statement No. 84 and GASB Statement No. 88 in 2019. We noted no transactions entered into by the Village 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 and related deferrals	Evaluation of information provided by the Wisconsin Retirement System (modify as necessary)	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

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 Village or that otherwise appear to be unusual due to their timing, size or nature.

## **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.

## **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.

## **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. Management is in agreement with the misstatements we have identified, and they have been corrected in the village's financial statements. The schedule within the Appendix C 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 lesser magnitude than significant deficiencies and material weaknesses.

## **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 Village'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 Village 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 Village's related parties.

## **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 Village'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 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.

## Nonattest services

The following nonattest services were provided by Baker Tilly:

- Financial statement preparation
- Adjusting journal entries and conversion entries
- Depreciation schedules
- TIF compilations
- Compiled regulatory reports
- Utility rate consulting
- Civic systems software

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*.

An aerial photograph of a winding asphalt road with white dashed lane markings, curving through a dense green forest. A rocky stream is visible in the upper right corner, and a grassy clearing with some animals is in the upper middle.

# Accounting changes relevant to Village of Shorewood Hills

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# Accounting changes relevant to the Village

## Future accounting standards updates

GASB Statement Number	Description	Potentially Impacts you	Effective Date
87	Leases	✓	12/31/20
89	Accounting for Interest Incurred before the End of a Construction Period	✓	12/31/20
91	Conduit Debt	✓	12/31/21

Further information on upcoming [GASB pronouncements](#)

### Preparing for the new lease standard

GASB's new single model for lease accounting will be effective for the upcoming year. This standard will require governments to identify and evaluate contracts that convey control of the right to use another entity's nonfinancial asset as specified in the contract 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.

We recommend the Village review this standard and start planning now as to how this will affect your financial reporting. We recommend that you begin by completing an inventory of all contracts that might meet the definition of a lease. The contract listing should include key terms of the contracts such as:

- Description of contract
- Underlying asset
- Contract term
- Options for extensions and terminations
- Service components, if any
- Dollar amount of lease

In addition, the Village should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

Learn more about [GASB 87](#).

## **Planning 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 Village 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.

A photograph of the Aurora Borealis (Northern Lights) in shades of green and teal, dancing across a dark, starry night sky. The lights are reflected in a calm body of water in the foreground, with dark mountain ranges visible on the horizon.

# Trending challenges for organizations

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# Trending challenges for organizations

Management and the governing body of the Village must keep the future in mind as they evaluate strategies to achieve future growth. Keeping a balance between risk and sustainability is key, and organizations need to think beyond their immediate needs to their long term goals. Economic uncertainty, coupled with key risk areas and fast paced technology change, make strategic planning complex. Begin the discussion with your management team to find your path to your future.

## 2020 strategic risks for boards



### Evaluating and mitigating the greatest risks

Public sector organizations face a multitude of internal and external risks in an evolving landscape. Risks can stem from strategy, finances, legal situations, operations, regulatory compliance, information technology, economic environment, and/or fraud, waste and abuse.

By employing a risk assessment, areas with the greatest needs and highest risks are evaluated. Then a risk mitigation plan can be developed and deployed.

Learn about [risk assessment](#) types, tools and strategies.

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## Cybersecurity

### Operational reporting on cybersecurity effectiveness

As boards engage management in cybersecurity risk discussions, directors should expect management to produce reports on the effectiveness of the organization's cybersecurity-risk management program. Management can (and should) collect and analyze relevant performance measures and metrics to determine if cybersecurity safeguards and controls are operating as intended, and whether any corrective action should be taken to strengthen management's risk-mitigation approaches. While not an exhaustive list, some key processes on which management should report include these:

- Incident management
- Risk management and governance
- Independent assurance on the cybersecurity program

[Learn more](#) about cybersecurity risk management.



[WATCH: On demand webinar about board governance over cybersecurity.](#)

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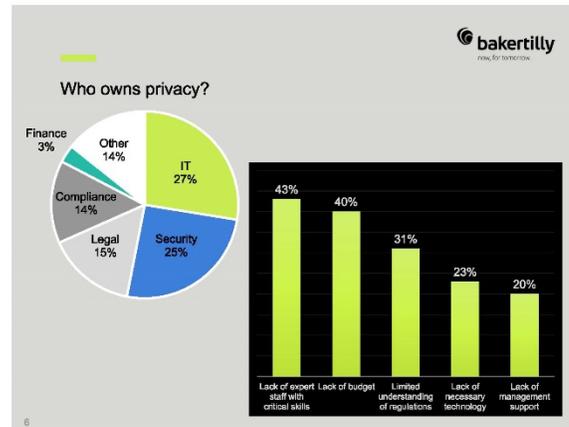
## Data privacy

### Elevating privacy risks to the forefront of board agendas

Organizations around the world are still scrambling to comply with the General Data Protection Regulation in the European Union, which went into effect in May 2018. While the data privacy regulatory environment changes rapidly, organizations can take proactive steps to ensure that they stay informed of the existing regulations and of those developing on the near horizon.

Adequate oversight remains a key part of staying on top of data privacy developments. Some regulations specify oversight requirements, and can depend on the type of the organization, the quantity and type of personal data processed, and the locations where operations take place. In many cases, a data protection officer (DPO) must lead the effort. Since the DPO is responsible for overseeing practices related to data protection strategy and implementation, having one in place early on will help ensure that the privacy program is comprehensive and consistent.

Learn more about [data privacy risk management](#).



[WATCH: On demand webinar about a risk-based approach to oversight, compliance and management of privacy](#)

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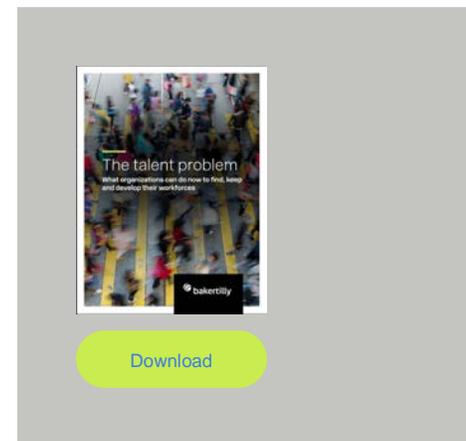
## The talent problem

### Establishing a lifeline for your shifting workforce

Employee recruitment and retention challenges are an all too common struggle in the public sector:

- Aging workers with institutional knowledge retire
- High demand for small qualified candidate pool
- Perception of geographic disadvantages
- Wage/benefit competition with private sector
- Lean operations exclude investments in recruitment, on-the-job training and technology
- Unclear growth and career advancement tracks

Sustainable organizations must have a robust workforce development and succession planning program. Learn how to get started and incorporate a workforce/succession planning program with existing operational practices.



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# Innovation

## Anticipating disruptive innovation and digital transformation

To stay competitive and relevant in a rapidly changing business landscape, organizations in every industry must navigate an increasingly disruptive, technology-enabled environment. Companies that do not address and embrace new and emerging technologies will be less competitive or may even face obsolescence.

Given these challenges to companies, what does innovation mean in this era of digital transformation? Innovation now involves finding the right problems worth solving; building new offerings, business models, and experiences; and generating value at scale for customers.

Furthermore, the rapid digital transformation of advanced technologies such as blockchain, robotic process automation (RPA), and artificial intelligence (AI) now portend similar effects in industries from financial services and healthcare to communications and manufacturing. Boards must become

knowledgeable about these digital disruption trends in order to be able to conduct meaningful oversight that management can use successfully as the company embraces new technologies.

### Anticipating Disruptive Innovation and Digital Transformation

To stay competitive and relevant in a rapidly changing business landscape, organizations in every industry must navigate an increasingly disruptive, technology-enabled environment.

[Read the blog post.](#)

Learn more about [innovation opportunities](#).

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# Public sector executive recruitment

## Navigating recruitments and smart hiring

Competing for top executive talent in the public sector space takes industry knowledge, familiarity with the general applicant pool and experience navigating recruitments. Search consultants draw upon their understanding of organizational management and human resources to serve as a successful agent for government entities. In turn, public sector organizations can adopt a foundational understanding about search firms to ensure optimal collaboration on hiring opportunities.

[Read the three part series](#) to learn what your entity should be thinking about and how Baker Tilly can help.

### Three part series on public sector executive recruitment

Navigate the changing workforce landscape with confidence, read the executive recruitment series.

1. [Five myths about search firms](#)
2. [Recruiting for difficult positions](#)
3. [Hiring recommendations for government entities](#)

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## Customer experience

### Finding your edge in a competitive market

All industries are facing an increasingly competitive marketplace due to more connected consumers, partners and vendors. Where a company may have had a geographic advantage in the past, they now need to be able to compete against non-local organizations.

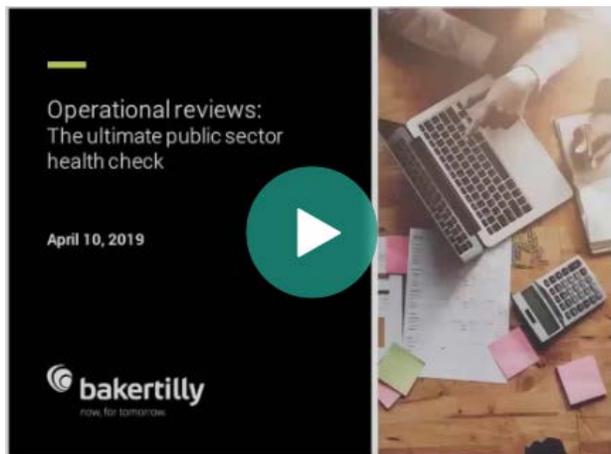
One of the key factors in maintaining your place in the market is ensuring a positive, fast and easy customer experience. Whether this means enhancing your customer support services through online chat bots or developing a mobile app to allow your customer access to their information around the clock, your organization needs to take your customer experience strategy seriously. Management and board members should understand where your experience is currently and what strategies you are evaluating to enhance it.

Learn more about [why your customer experience is so important](#).

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## Operational and organizational sustainability

### Aligning resources with strategy



As new demands confront the public sector industry, it's easy to solve an immediate problem instead of pausing to take a holistic view. Rippling inefficiencies, increasing financial pressures, taxing staff resources and plummeting constituent satisfaction can pile atop organizations already facing pressure to improve efficiency, effectiveness, relevance and financial viability.

An operational review follows a systematic, strategic approach to understanding an entity's operations and performance. Opportunities to improve processes, bolster internal controls and reduce costs are uncovered in order to realign organizational resources and strategic objectives.

Learn invaluable methods for [executing an operational review](#) while maintaining day-to-day operations.

# Appendix A: Client service team



# Client service team



**Vicki Hellenbrand, CPA**

**Partner**

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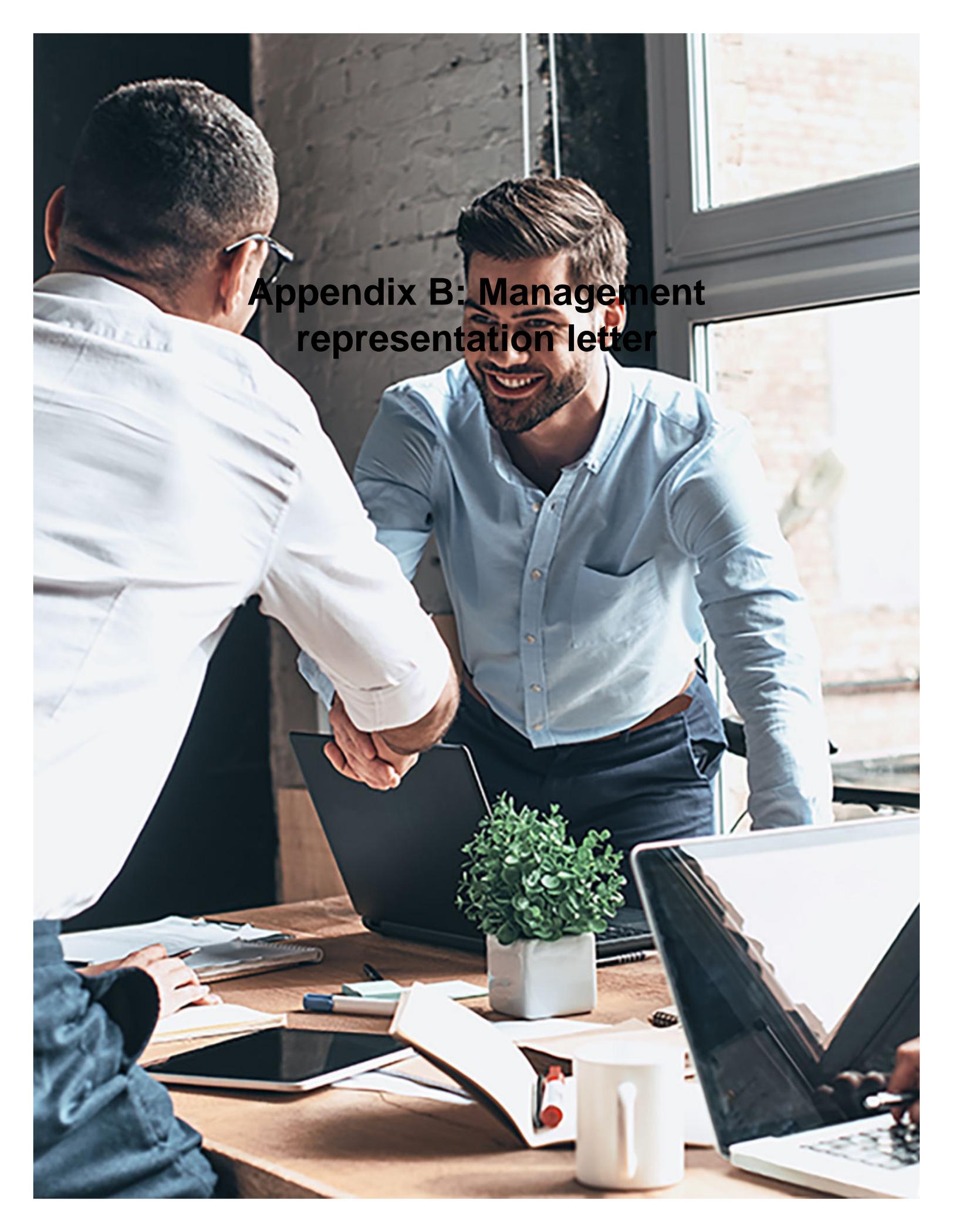


**Leah Wipperfurth, CPA**

**Senior Associate**

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A photograph of two men in a professional office environment. The man on the right, with a beard and wearing a light blue button-down shirt, is smiling broadly and shaking hands with the man on the left. The man on the left is seen from the back, wearing a white shirt and glasses. They are standing at a wooden desk cluttered with various office items: a laptop, a tablet, a white mug, a small potted plant, and some papers. A window in the background shows a bright, outdoor scene. The overall atmosphere is positive and collaborative.

**Appendix B: Management  
representation letter**



Village of  
Shorewood Hills

May 1, 2020

Baker Tilly Virchow Krause, LLP

Ten Terrace Ct  
P.O. Box 7398  
Madison, Wisconsin 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Village of Shorewood Hills as of December 31, 2019 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 remaining fund information of the Village of Shorewood Hills 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 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.

810 Shorewood Boulevard Madison, WI 53705-2115 • Phone: 608-267-2680 • Fax: 608-266-5929

[www.shorewood-hills.org](http://www.shorewood-hills.org)

- 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) All known audit and bookkeeping adjustments have been included in our financial statements, 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 Village 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 Village Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) We have not completed an 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) There are no known related parties or related party relationships and transactions of which we are aware.

**Other**

- 17) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 18) 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.
- 19) The Village has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 20) 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.
- 21) 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.

22) 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
- c) Compiled TIF financial statements
- d) Compiled regulatory reports
- e) Civic Systems software
- f) Utility rate consulting
- g) Depreciation schedules

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

- 23) The Village of Shorewood Hills 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.
- 24) The Village of Shorewood Hills has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
- 25) 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.
- 26) The financial statements properly classify all funds and activities.
- 27) 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.
- 28) 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.
- 29) The Village of Shorewood Hills has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
- 30) Provisions for uncollectible receivables, if any, have been properly identified and recorded.
- 31) 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.
- 32) Revenues are appropriately classified in the statement of activities within program revenues and general revenues.

- 33) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 34) Special and extraordinary items are appropriately classified and reported.
- 35) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
- 36) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
- 37) Tax-exempt bonds issued have retained their tax-exempt status.
- 38) We have appropriately disclosed the Village of Shorewood Hills'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. 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.
- 39) 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.
- 40) 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.
- 41) We assume responsibility for, and agree with, the findings of specialists in evaluating the (describe assertion) and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
- 42) We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.
- 43) All activities that meet the criteria in GASB Statement No. 84 for presentation as fiduciary activities have been identified and presented as such.
- 44) Any direct borrowings, direct placements, lines of credit or debt default clauses have been identified and properly disclosed.

Sincerely,

Village of Shorewood Hills

Signed: *Kath Egan*

Signed: *Paul J. [unclear]*

## Appendix C: Corrected misstatements



# Material corrected misstatements

Description	Opinion unit	Amount
To accrue accounts payable	Various	\$352,613
To reverse prior audit accruals	Sewer and Storm Utility	\$52,576
To record current year tax equivalent	Water Utility	\$56,814
To record current year depreciation	Water, Sewer, Storm Utility	\$143,143
To adjust debt payment	Debt Service and Storm Utility	\$58,098
To adjust current portions of debt	Storm Utility	\$5,000
To record GASB 68 changes	Storm Utility	\$10,883
To record pool receipt	Swimming Pool	\$30,014
To adjust pooled cash for prior period civic variance	Capital Improvements	\$111,126
To transfer flood reimbursement	Swimming Pool	\$89,374
To record current year plant activity	Water, Sewer, Storm Utility	\$779,951

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.

A close-up photograph of a person's hands and arms at a wooden table. The person is wearing a light blue long-sleeved shirt and a black watch with a white face and a brown leather strap. They are holding a black pen over an open document. In the background, another person's hands are visible, gesturing as if in conversation. The scene is set in a meeting or office environment.

**Appendix D: Two-way communication  
regarding your audit**

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 Village 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 October-December, and sometimes early 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.

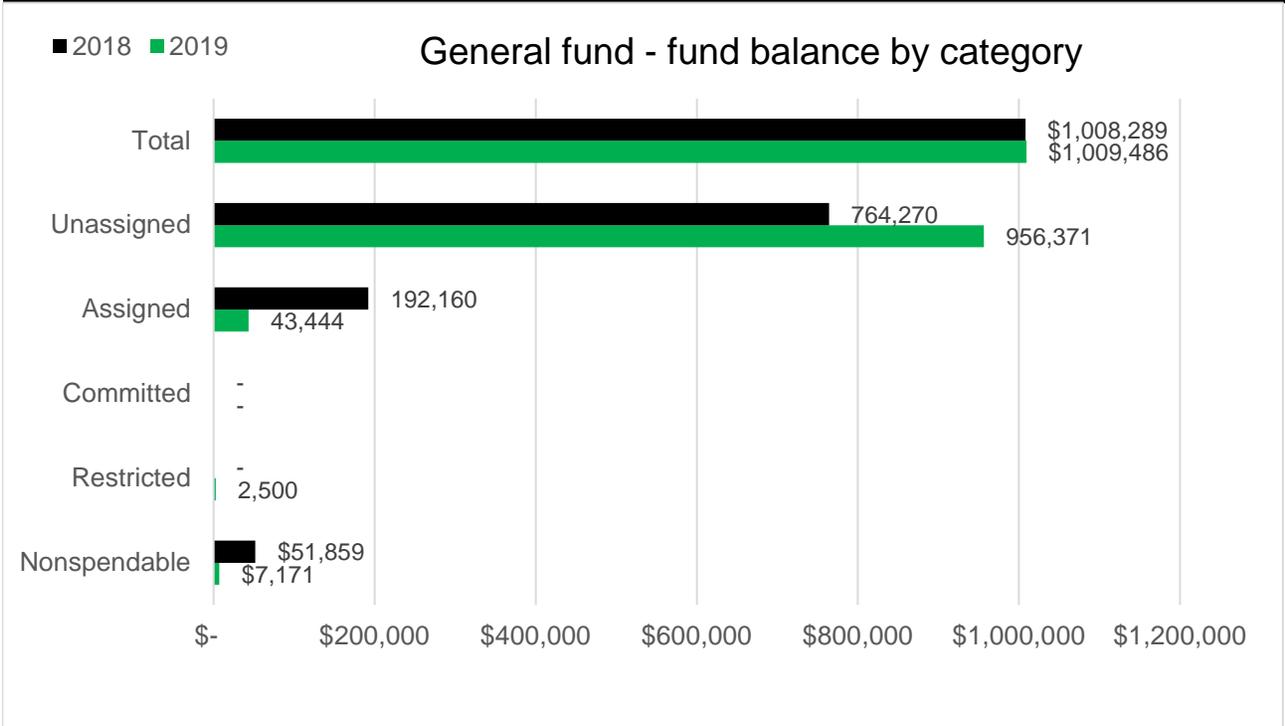
# Appendix E: Audit results





# Village of Shorewood Hills

## General fund results



### Summarized income statement

	<u>Actual</u>	<u>Final budget</u>	<u>Variance</u>
Revenues and other financing sources	\$ 4,081,291	\$ 3,899,719	\$ 181,572
Expenditures and other financing uses	4,080,094	3,899,719	(180,375)
Net change in fund balance	<u>\$ 1,197</u>	<u>\$ -</u>	<u>\$ 1,197</u>

### Fund balance category definitions

Nonspendable - amounts cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained in tact.

Restricted - amounts that can be spent only for the specific purposes stipulated by an external source.

Committed - amounts constrained for specific purposes that are internally imposed through formal action of the governing body.

Assigned - spendable amounts that are intended to be used for specific purposes that are not considered restricted or committed.

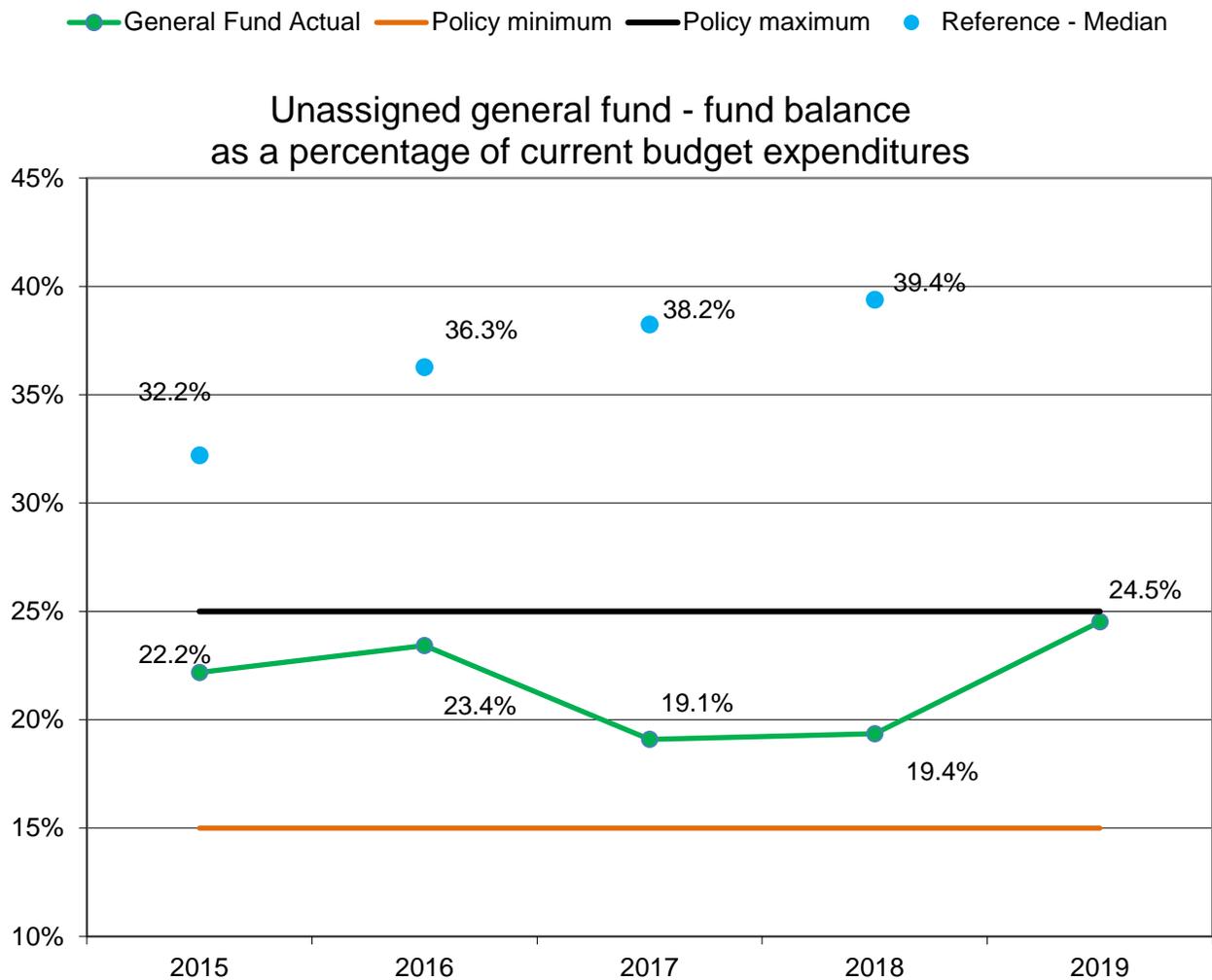
Unassigned - residual amounts that have not been classified within other categories above.

# Village of Shorewood Hills

## General fund - fund balance trends

### Fund balance policy:

15-25% of general fund current year budgeted expenditures



### Other reference values

GFOA recommends a minimum of no less than 2 months (16.7%) of general fund expenditures.

Median reference value generated from 2015 - 2018 Baker Tilly municipal client data for population ranges from 17,500 to 30,000.

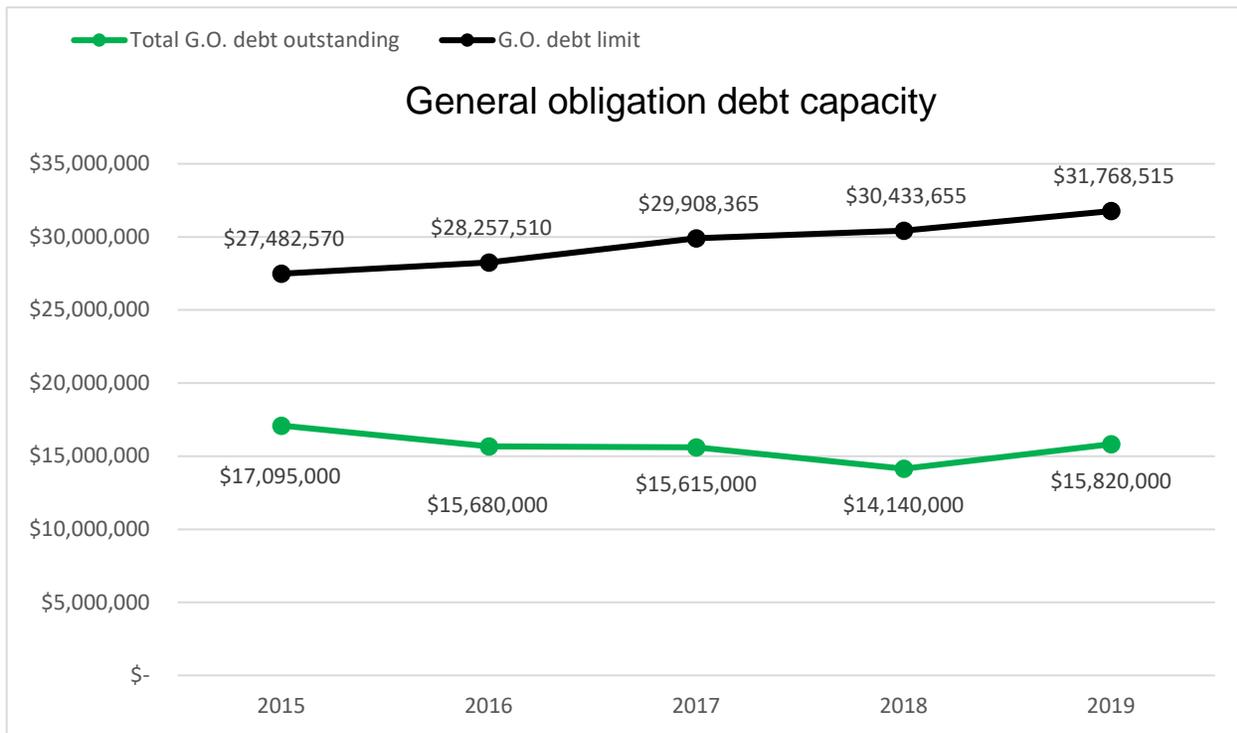
# Village of Shorewood Hills

## General obligation debt

### Debt management policy:

The Village does not currently have a debt management policy.

Actual percentage of debt limit at 12/31/19: **50%**



### Total debt outstanding by type at 12/31/2019

	General obligation	Revenue debt	Other	Total
Village	\$ 13,790,566	\$ -	\$ -	\$ 13,790,566
Utility	2,029,434	-	-	2,029,434
Other	-	-	-	-
<b>Total</b>	<b>\$ 15,820,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,820,000</b>

Comparative metrics available online through the Wisconsin Policy Forum.

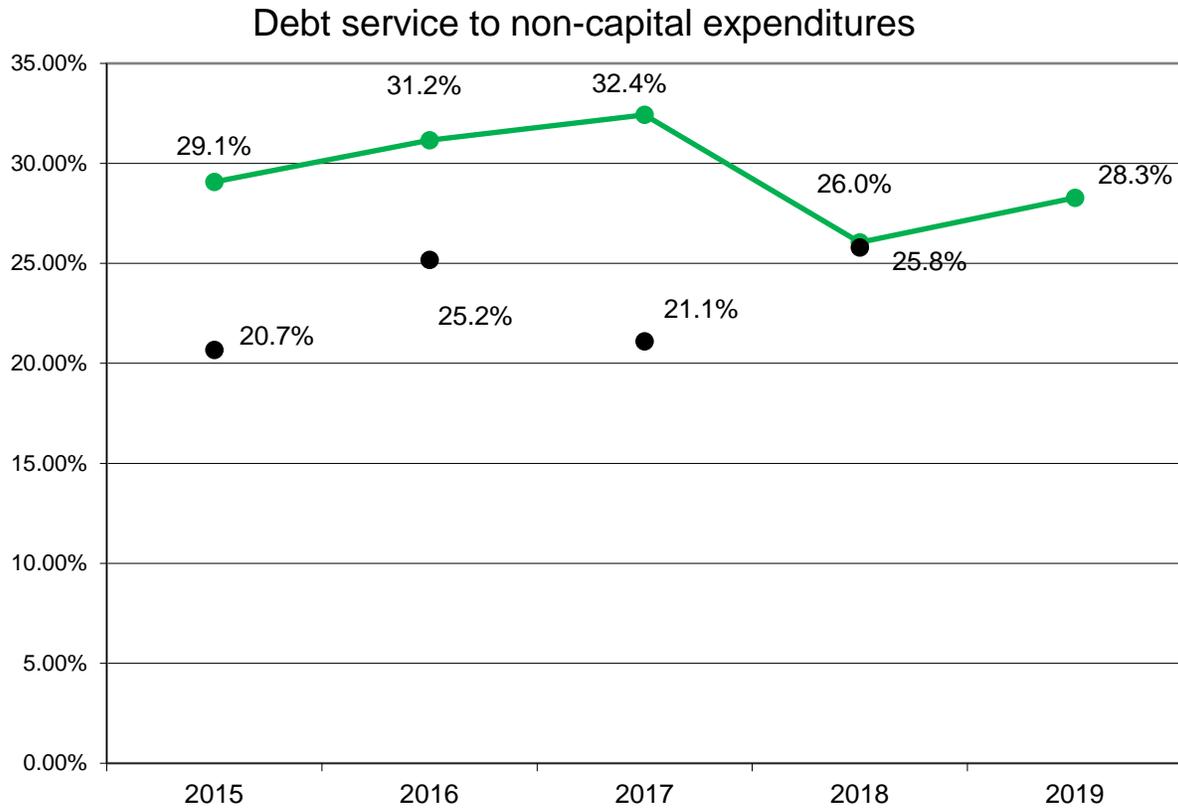
<https://wispolicyforum.org/research/municipal-datatool-examining-and-comparing-wisconsin-cities-and-villages/>

Select "Debt" -- options for custom comparisons or comparisons by county

# Village of Shorewood Hills

## Governmental funds - debt service

● Village of Shorewood Hills ● Reference - Median



### Current and prior year data

	<u>2019</u>	<u>2018</u>
Principal	\$ 1,198,272	\$ 1,150,340
Interest	492,404	363,520
Total	<u>\$ 1,690,676</u>	<u>\$ 1,513,860</u>
Non-capital expenditures	<u>\$ 5,978,148</u>	<u>\$ 5,811,387</u>

### Other reference values

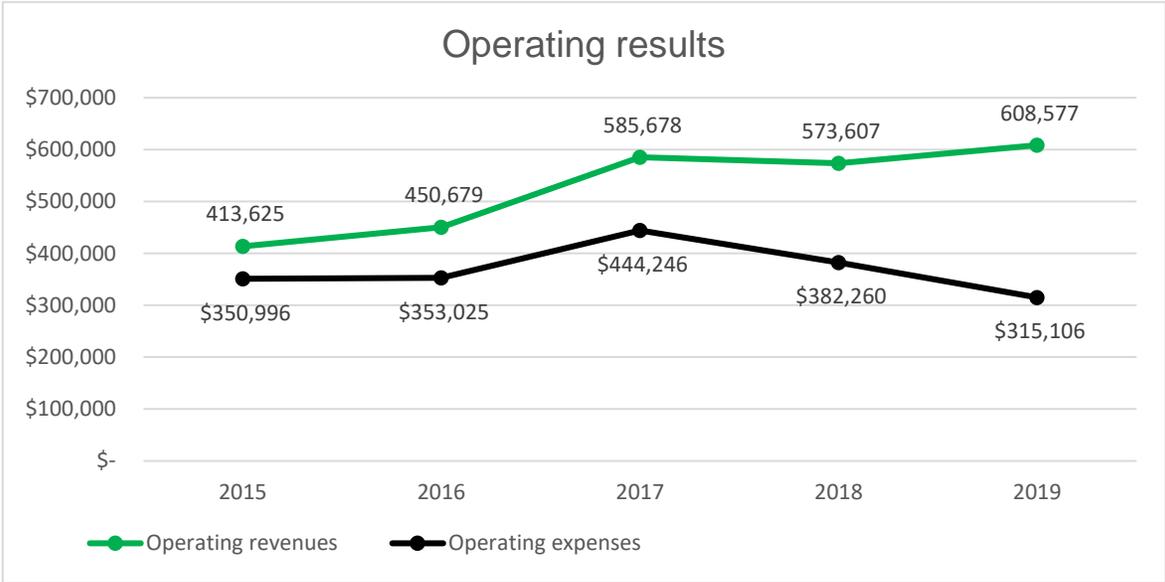
Median reference value generated from 2015 - 2018 Baker Tilly municipal client data for population ranges from 17,500 to 30,000.



# Village of Shorewood Hills

## Water Utility Results

	<u>Current Year</u>	<u>Prior Year</u>
Actual Rate of Return	<b>8.75%</b>	<b>5.10%</b>
Authorized Rate of Return	<b>5.00%</b>	<b>5.00%</b>

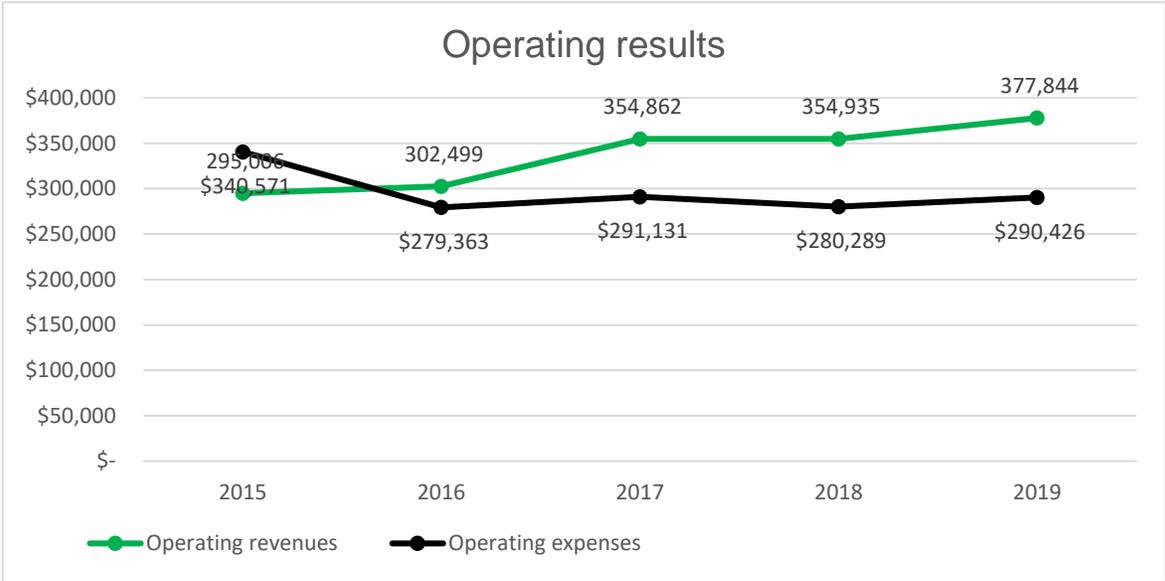


### Investment in Capital





# Village of Shorewood Hills Sewer Utility Results

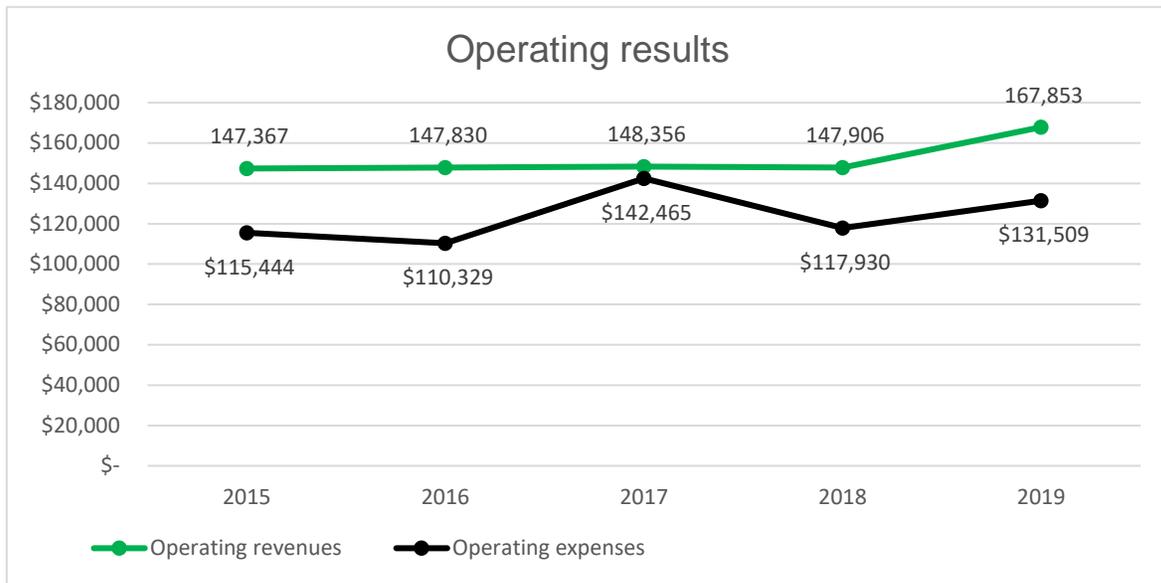


## Investment in Capital





## Village of Shorewood Hills Stormwater Utility Results



### Unrestricted Reserves

	2015	2016	2017	2018	2019
Year end balance	\$ 182,498	\$ 157,069	\$ 96,405	\$ 35,931	\$ 40,396
Months on hand	<b>14.86</b>	<b>12.75</b>	<b>7.80</b>	<b>2.92</b>	<b>2.89</b>

### Investment in Capital

