

April 7, 2023

To: Nancy Edwards
From: Norm Wetzel
Cc: Citizens for Education in Town Governance

Re: Questions Related to the Audit of 2021 Town Finances

Thank you for your response to our request to meet with you regarding the audit. As you suggested, we are submitting the questions to you in writing. This document lists the questions as well as references to the *Audit Report* or related *Representation Letter* you have provided.

We look forward to hearing from you within the coming week.

Thank you,

Question 1 – Basis of Accounting. Why does the town board employ a *modified cash basis of accounting*, particularly when the Independent Auditor’s Report includes the following statement?

The financial statements and notes are representations of the Town’s management who is responsible for the integrity and objectivity of the financial statements. These financial statements are presented on the modified cash basis of accounting, *which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB)* *Italics Added*. These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting. (Page 9, Note 1)

Question 2 – Capitalization of Assets. Why does the town not capitalize assets? The question refers to the following statement on page 10 of the auditor's report:

The accounting treatment over capital assets normally depends on whether the assets are reported in the government-wide or fund financial statements and used in governmental fund operations. However, the Town has elected not to capitalize assets and therefore the statements account for them as capital outlay expenses-expenditures upon acquisition.

Question 3 – Use of Estimates. What are the assumptions used by the town when preparing financial statements, and how are estimates determined? The question refers to the following statement on page 12 of the auditor’s report:

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. *Actual results may differ from these estimates and such differences may be material.* (Italics added)

Question 4 – Custodial Credit Risk. Why does the town not have a policy for custodial credit risk? The question refers to the following statement on page 13 of the report:

The Town maintains its cash accounts at one financial institution. Custodial credit risk for deposits is the risk that in the event of a bank failure, the town's deposits may not be returned. *The Town does not have a deposit policy for custodial credit.* (Italics added)

Question 5 – Risk Management. At the time of the audit, "Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in the past three years" (Report Page 15). Considering recent events, what is the current/projected status of the town's risk?

Question 6 – Contingencies. Considering recent events, does the town currently concur with the following statement on Page 15 of the report? "From time to time, the Town is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, *it is the opinion of [Town] management that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Town's financial position or results of operation*" (Italics added).

Several statements in a KerberRose Representation Letter signed by Chair Gaulke on February 15, 2023, prompt additional questions. Here are some of the statements followed by our questions

“Statement 4 – We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.” What are the programs and controls that the town has implemented?

“Statement 5 – Significant assumptions we used in making accounting estimates are reasonable.” What are the assumptions?

“Statement 13 – We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.” How did the town assess the risks? What are the risks?

“Statement 20 – We have a process to track the status of audit findings and recommendations.” What is the town's process and has it been approved by the town board?

“Statement 39 – We have appropriately disclosed the Town's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net positions were properly recognized under the policy.” Is a copy of the town's policy available? Has the policy been approved by the town board?