

City of Park Falls

Notes to Financial Statements
December 31, 2024

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Allocation Targets and Expected Returns* as of December 31, 2023			
Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %**
Public Equity	40	7.3	4.5
Public Fixed Income	27	5.8	3.0
Inflation Sensitive	19	4.4	1.7
Real Estate	8	5.8	3.0
Private Equity/Debt	18	9.6	6.7
Leverage***	(12)	3.7	1.0
Total Core Fund	100	7.4	4.6
Variable Fund Asset			
U.S. Equities	70	6.8	4.0
International Equities	30	7.6	4.8
Total Variable Fund	100	7.3	4.5

* Asset Allocations are managed within established ranges; target percentages may differ from actual monthly allocations

** New England Pension Consultants' Long-Term U.S. CPI (Inflation) Forecast: 2.7%

*** The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. Currently, an asset allocation target of 12% policy leverage is used subject to an allowable range of up to 20%.

Single Discount Rate

A single discount rate of 6.8% was used to measure the total pension liability for the current and prior year. This discount rate is based on the expected rate of return on pension plan investments of 6.8% and a municipal bond rate of 3.77% (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2023. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.) Because of the unique structure of WRS, the 6.8% expected rate of return implies that a dividend of approximately 1.7% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the investment rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 6.80%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.80%) or 1-percentage-point higher (7.80%) than the current rate:

	1% Decrease to Discount Rate (5.8%)	Current Discount Rate (6.8%)	1% Increase to Discount Rate (7.8%)
City's proportionate share of the net pension liability (asset)	\$ 1,411,317	\$ 146,016	\$ (739,368)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

Commitments and Contingencies

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments are only reported in governmental funds if it has matured. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred.

City of Park Falls

Notes to Financial Statements
December 31, 2024

From time to time, the City 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 management and the City attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position or results of operations.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Effect of New Accounting Standards on Current-Period Financial Statements

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 102, *Certain Risk Disclosures*
- Statement No. 103, *Financial Reporting Model Improvements*
- Statement No. 104, *Disclosure of Certain Capital Assets*

When they become effective, application of these standards may restate portions of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Park Falls

Budgetary Comparison Schedule -
General Fund
Year Ended December 31, 2024

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance With Final Budget
Revenues				
Taxes:				
General property tax for local purposes	\$ 1,498,500	\$ 1,498,500	\$ 1,502,704	\$ 4,204
Forest land tax	183	183	-	(183)
Mobile home taxes	15,000	15,000	19,573	4,573
Room tax	40,000	40,000	50,845	10,845
Taxes from other tax exempt entities	21,000	21,000	9,822	(11,178)
Interest on taxes	50	50	625	575
Total taxes	1,574,733	1,574,733	1,583,569	8,836
Special assessments:				
Special assessments	-	-	20,292	20,292
Total	-	-	20,292	20,292
Intergovernmental:				
Federal grants	-	-	144,000	144,000
Shared taxes from state	1,261,451	1,261,451	1,265,102	3,651
State aid, LRIP	-	-	200	200
State aid, local streets	273,910	273,910	325,612	51,702
State aid, other public safety	-	-	1,680	1,680
Other state shared taxes	8,317	8,317	8,317	-
Protection services	2,872	2,872	2,523	(349)
State aid, fire insurance tax	5,000	5,000	7,645	2,645
Other local government grants	-	-	17,116	17,116
In lieu of taxes	440	440	474	34
Forest cropland, managed forest land	4	4	-	(4)
Total intergovernmental	1,551,994	1,551,994	1,772,669	220,675
Licenses and permits:				
Liquor and malt beverage licenses	8,025	8,025	9,360	1,335
Building permits	6,493	6,493	5,267	(1,226)
Other regulatory permits and fees	-	-	4,133	4,133
Total licenses and permits	14,518	14,518	18,760	4,242
Fines, forfeitures and penalties:				
Court penalties and costs	15,000	15,000	19,038	4,038
Total fines, forfeitures and penalties	15,000	15,000	19,038	4,038
Public charges for services:				
General government fees	800	800	3,502	2,702
Police department fees	4,500	4,500	2,290	(2,210)
Other public safety fees	6,000	6,000	-	(6,000)
Park fees	15,000	15,000	17,508	2,508
Airport fees	7,500	7,500	9,826	2,326
Cemetery fees	24,000	24,000	27,593	3,593
Library fees	8,800	8,800	18,598	9,798
Swimming area fees	13,000	13,000	14,374	1,374
Total public charges for services	79,600	79,600	93,691	14,091
Intergovernmental charges for services:				
State, fire services	61,080	61,080	63,378	2,298
State, other services	186,420	186,420	151,600	(34,820)
Total intergovernmental charges for services	247,500	247,500	214,978	(32,522)
Investment income:				
Interest on temporary investments	6,000	6,000	41,799	35,799
Total investment income	6,000	6,000	41,799	35,799
Miscellaneous:				
Rent/lease	6,000	6,000	17,812	11,812
Insurance recoveries	-	-	4,984	4,984
Donations	-	-	7,877	7,877
Other miscellaneous revenue	13,000	13,000	19,210	6,210
Total miscellaneous	19,000	19,000	49,883	30,883
Total revenues	3,508,345	3,508,345	3,814,679	306,334

See notes to required supplementary information

City of Park Falls

Budgetary Comparison Schedule -

General Fund

Year Ended December 31, 2024

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	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance With Final Budget
Expenditures				
General government:				
Council	\$ 113,600	\$ 113,600	\$ 83,885	\$ 29,715
Mayor	11,600	11,600	10,657	943
Administrator	144,750	144,750	181,540	(36,790)
Clerk	55,987	72,688	47,603	25,085
Elections	6,600	6,600	7,177	(577)
Financial administration, finance department	95,337	95,337	158,404	(63,067)
Legal	20,700	20,700	47,745	(27,045)
Municipal buildings	19,800	14,800	50,280	(35,480)
Property and liability insurance	100,000	100,000	17,912	82,088
Total general government	568,374	580,075	605,203	(25,128)
Public safety:				
Police	888,637	888,637	913,806	(25,169)
Ambulance and fire	184,001	184,001	215,860	(31,859)
Other public safety	12,000	12,000	12,000	-
Total public safety	1,084,638	1,084,638	1,141,666	(57,028)
Public works:				
Road maintenance	381,900	381,900	337,108	44,792
Street lighting	48,000	48,000	46,320	1,680
Sidewalks	11,800	11,800	5,824	5,976
Storm sewers	7,700	7,700	8,878	(1,178)
Engineering	-	-	144,336	(144,336)
Machinery operation and maintenance	165,000	165,000	161,043	3,957
Buildings and grounds operations	20,300	20,300	17,896	2,404
Airport	38,100	38,100	38,872	(772)
Other transportation facilities	5,000	10,000	10,000	-
Garbage, recycling and refuse collection	-	-	1,422	(1,422)
Landfill	-	-	165	(165)
Total public works	677,800	682,800	771,864	(89,064)
Health and human services:				
Cemetery	29,200	29,200	34,444	(5,244)
Total health and human services	29,200	29,200	34,444	(5,244)
Leisure activities:				
Library	422,207	422,207	437,815	(15,608)
Parks	143,250	116,549	106,743	9,806
Leisure services	98,900	108,900	144,729	(35,829)
Total leisure activities	664,357	647,656	689,287	(41,631)
Conservation and development:				
Historic preservation	-	-	85	(85)
Planning	67,928	67,928	63,812	4,116
Community development	25,000	25,000	12,644	12,356
Total conservation and development	92,928	92,928	76,541	16,387
Debt service:				
Interest	-	-	6,364	(6,364)
Total debt service	-	-	6,364	(6,364)
Capital expenditures	5,000	5,000	51,322	(46,322)
Total expenditures	3,122,297	3,122,297	3,376,691	(254,394)
Excess of revenues over expenditures	386,048	386,048	437,988	51,940
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	117,038	117,038
Transfers in	95,000	95,000	116,329	21,329
Transfers out	(480,000)	(480,000)	(545,615)	(65,615)
Total other financing sources (uses)	(385,000)	(385,000)	(312,248)	72,752
Net change in fund balance	\$ 1,048	\$ 1,048	125,740	\$ 124,692
Fund Balance, Beginning			1,307,825	
Fund Balance, Ending			\$ 1,433,565	

See notes to required supplementary information

City of Park Falls**Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset) -**

Wisconsin Retirement System

Year Ended December 31, 2024

WRS Fiscal Year End Date (Measurement Date)	City's Proportion of the Net Pension Liability/Asset	City's Proportionate Share of the Net Pension Liability/(Asset)	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability/Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2023	0.00982080 %	\$ 146,016	\$ 1,490,141	9.80 %	98.85 %
12/31/2022	0.00952651 %	504,686	1,380,007	36.57 %	95.72 %
12/31/2021	0.00947077 %	(763,361)	1,303,460	58.56 %	8.51 %
12/31/2020	0.00961736 %	(600,425)	1,237,238	105.26 %	48.53 %
12/31/2019	0.00968894 %	(312,415)	1,299,301	102.96 %	24.04 %
12/31/2018	0.00974159 %	346,575	1,285,026	496.45 %	26.97 %
12/31/2017	0.00961393 %	(285,448)	1,187,928	102.93 %	24.03 %
12/31/2016	0.00975681 %	80,419	1,265,816	99.12 %	6.35 %
12/31/2015	0.00981109 %	159,428	1,216,412	98.20 %	13.11 %
12/31/2014	0.00993752 %	(181,028)	1,209,958	102.74 %	14.96 %

Schedule of Employer Contributions -

Wisconsin Retirement System

Year Ended December 31, 2024

City's Year End Date	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/2024	\$ 141,737	\$ 141,737	\$ -	\$ 1,524,257	9.30 %
12/31/2023	133,203	133,203	-	1,490,142	8.94 %
12/31/2022	114,262	114,262	-	1,380,007	8.28 %
12/31/2021	103,724	103,724	-	1,237,238	8.38 %
12/31/2020	101,754	101,754	-	1,299,301	7.83 %
12/31/2019	102,829	102,829	-	1,285,026	8.00 %
12/31/2018	94,664	94,664	-	1,187,928	7.97 %
12/31/2017	94,165	94,165	-	1,265,816	7.44 %
12/31/2016	92,858	92,858	-	1,216,412	7.53 %
12/31/2015	95,915	95,915	-	1,209,958	7.93 %

See notes to required supplementary information

Budgetary Information

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting as described in Note 1.

The budgeted amounts presented include both the original adopted budget and the final budget. Changes to the budget during the year, if any, generally include amendments authorized by the governing body, additions of approved carryover amounts and appropriations of revenues and other sources for specified expenditures/uses. Changes to appropriations authorized in the adopted budget generally require a vote of two-thirds of the entire membership of the governing body.

Appropriated budget amounts in the general fund lapse at the end of the year unless specifically carried over for financing subsequent year expenditures. The City's legal budget is adopted at the major function level in the general fund (i.e., general government) and at the fund level in all other funds.

Wisconsin Retirement System

The amounts determined for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

Changes in Benefit Terms. There were no changes of benefit terms for any participating employer in the Wisconsin Retirement System.

Changes in Assumptions. Based on a three-year experience study conducted in 2021 covering January 1, 2018 through December 31, 2020, the ETF Board adopted assumption changes that were used to measure the total pension liability beginning with the year-end December 31, 2021, including the following:

- Lowering the long-term expected rate of return from 7.0% to 6.8%
- Lowering the discount rate from 7.0% to 6.8%
- Lowering the price inflation rate from 2.5% to 2.4%
- Lowering the postretirement adjustments from 1.9% to 1.7%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2018 Mortality Table to the 2020 WRS Experience Mortality Table

Based on a three-year experience study conducted in 2018 covering January 1, 2015 through December 31, 2017, the ETF Board adopted assumption changes that were used to measure the total pension liability beginning with the year-ended December 31, 2018, including the following:

- Lowering the long-term expected rate of return from 7.2% to 7.0%
- Lowering the discount rate from 7.2% to 7.0%
- Lowering the wage inflation rate from 3.2% to 3.0%
- Lowering the price inflation rate from 2.7% to 2.5%
- Lowering the postretirement adjustments from 2.1% to 1.9%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2012 Mortality Table to the Wisconsin 2018 Mortality Table

SUPPLEMENTARY INFORMATION

City of Park Falls

Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2024

	Special Revenue		Fair Housing	Capital Projects		Debt Service	Total Nonmajor Governmental Funds
	DARE	CDBG		TIF #3 Development	TIF #6 Development		
Assets							
Cash and investments	\$ 18,858	\$ 106,932	\$ 54,070	\$ 180,238	\$ -	\$ -	\$ 360,098
Taxes receivable	-	-	-	-	85	-	85
Notes receivable, net	-	183,821	-	-	-	-	183,821
Total assets	<u>\$ 18,858</u>	<u>\$ 290,753</u>	<u>\$ 54,070</u>	<u>\$ 180,238</u>	<u>\$ 85</u>	<u>\$ -</u>	<u>\$ 544,004</u>
Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)							
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ 15,000	\$ 5,182	\$ -	\$ 20,182
Due to other funds	-	100	-	-	-	-	100
Advances from other funds	-	-	-	-	509,775	-	509,775
Total liabilities	<u>-</u>	<u>100</u>	<u>-</u>	<u>15,000</u>	<u>514,957</u>	<u>-</u>	<u>530,057</u>
Deferred Inflows of Resources							
Unearned revenues	-	-	-	-	85	-	85
Unavailable revenues	-	183,821	-	-	-	-	183,821
Total deferred inflows of resources	<u>-</u>	<u>183,821</u>	<u>-</u>	<u>-</u>	<u>85</u>	<u>-</u>	<u>183,906</u>
Fund Balances (Deficits)							
Restricted	18,858	106,832	54,070	165,238	-	-	344,998
Unassigned (deficit)	-	-	-	-	(514,957)	-	(514,957)
Total fund balances (deficits)	<u>18,858</u>	<u>106,832</u>	<u>54,070</u>	<u>165,238</u>	<u>(514,957)</u>	<u>-</u>	<u>(169,959)</u>
Total deferred inflows of resources and fund balances (deficits)	<u>\$ 18,858</u>	<u>\$ 290,753</u>	<u>\$ 54,070</u>	<u>\$ 180,238</u>	<u>\$ 85</u>	<u>\$ -</u>	<u>\$ 544,004</u>

City of Park Falls

Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2024

	Special Revenue			Capital Projects		Total Nonmajor Governmental Funds
	DARE	CDBG	Fair Housing	TIF #3 Development	TIF #6 Development	
Revenues						
Taxes	-	-	\$	-	\$	\$
Intergovernmental	-	-	-	143,226	-	143,226
Investment income	57	62	-	69	-	69
				-	-	119
Total revenues	57	62	-	143,295	-	143,414
Expenditures						
Current:						
Public safety	373	-	-	-	-	373
Conservation and development	-	26,030	-	15,000	14,957	55,987
Capital outlay	-	-	-	-	500,000	500,000
Debt service:						
Principal retirement	-	-	-	-	-	400,000
Interest and fiscal charges	-	-	-	-	-	170,968
Total expenditures	373	26,030	-	15,000	514,957	1,127,328
Excess (deficiency) of revenues over expenditures	(316)	(25,968)	-	128,295	(514,957)	(983,914)
Other Financing Sources (Uses)						
Long-term debt issued	-	-	-	-	-	5,175,000
Premium on long-term debt	-	-	-	-	-	198,637
Transfers in	-	-	-	-	-	437,487
Transfers out	-	-	-	(450,000)	-	(5,690,156)
Total other financing sources (uses)	-	-	-	(450,000)	-	120,968
Net change in fund balances	(316)	(25,968)	-	(321,705)	(514,957)	(862,946)
Fund Balances, Beginning	19,174	132,800	54,070	486,943	-	692,987
Fund Balances (Deficit), Ending	\$ 18,858	\$ 106,832	\$ 54,070	\$ 165,238	\$ (514,957)	\$ (169,959)

City of Park Falls

Combining Statement of Net Position -
Nonmajor Enterprise Funds
December 31, 2024

	Refuse	Redevelopment Authority	Total Nonmajor Enterprise Funds
Assets and Deferred Outflows of Resources			
Assets			
Current assets:			
Cash and investments	\$ -	\$ 526	\$ 526
Other accounts receivable	57,524	-	57,524
Due from other funds	2,164	-	2,164
Total current assets	59,688	526	60,214
Noncurrent assets:			
Capital assets:			
Capital assets being depreciated	-	2,098,996	2,098,996
Accumulated depreciation	-	(2,098,996)	(2,098,996)
Total noncurrent assets	-	-	-
Total assets	59,688	526	60,214
Deferred Outflows of Resources			
Pension related amounts	22,116	-	22,116
Total deferred outflows of resources	22,116	-	22,116
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Accounts payable	8,810	-	8,810
Accrued expenses	215	-	215
Due to other funds	14,548	-	14,548
Total current liabilities	23,573	-	23,573
Noncurrent liabilities:			
Net pension liability	2,920	-	2,920
Total noncurrent liabilities	2,920	-	2,920
Total liabilities	26,493	-	26,493
Deferred Inflows of Resources			
Pension related amounts	15,659	-	15,659
Total deferred inflows of resources	15,659	-	15,659
Net Position			
Unrestricted	39,652	526	40,178
Total net position	\$ 39,652	\$ 526	\$ 40,178

City of Park Falls

Combining Statement of Revenues, Expenses and Changes in Net Position -
 Nonmajor Enterprise Funds
 Year Ended December 31, 2024

	Refuse	Redevelopment Authority	Total Nonmajor Enterprise Funds
Operating Revenues	<u>\$ 232,832</u>	<u>\$ -</u>	<u>\$ 232,832</u>
Operating Expenses			
Operation and maintenance	227,205	-	227,205
Depreciation	<u>-</u>	<u>10,490</u>	<u>10,490</u>
Total operating expenses	<u>227,205</u>	<u>10,490</u>	<u>237,695</u>
Operating income (loss)	<u>5,627</u>	<u>(10,490)</u>	<u>(4,863)</u>
Change in net position	5,627	(10,490)	(4,863)
Net Position, Beginning	<u>34,025</u>	<u>11,016</u>	<u>45,041</u>
Net Position, Ending	<u><u>\$ 39,652</u></u>	<u><u>\$ 526</u></u>	<u><u>\$ 40,178</u></u>

City of Park Falls

Combining Statement of Cash Flows -
 Nonmajor Enterprise Funds
 Year Ended December 31, 2024

	<u>Refuse</u>	<u>Redevelopment Authority</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash Flows From Operating Activities			
Cash received from customers	\$ 227,797	\$ -	\$ 227,797
Cash paid to suppliers for goods and services	(207,128)	-	(207,128)
Cash paid to employees for services	(20,669)	-	(20,669)
Net cash flows from operating activities	-	-	-
Cash and Cash Equivalents, Beginning	-	526	526
Cash and Cash Equivalents, Ending	<u>\$ -</u>	<u>\$ 526</u>	<u>\$ 526</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows From Operating Activities			
Operating income (loss)	\$ 5,627	\$ (10,490)	\$ (4,863)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	-	10,490	10,490
Change in assets and liabilities:			
Other accounts receivable	(2,871)	-	(2,871)
Receivable from Municipality	(2,164)	-	(2,164)
Accounts payable	(12,950)	-	(12,950)
Payable to Municipality	13,036	-	13,036
Other current liabilities	154	-	154
Pension related deferrals and asset	(832)	-	(832)
Net cash flows from operating activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Noncash Capital, Investing and Financing Activities			
None			

City of Park Falls

Report on Federal Awards

December 31, 2024

City of Park Falls

Table of Contents
December 31, 2024

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8

**Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

Independent Auditors' Report

To the City Council of
City of Park Falls

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Park Falls (the City), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June xx, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Milwaukee, Wisconsin
June xx, 2025

**Report on Compliance
for Each Major Federal Program;
Report on Internal Control Over Compliance; and
Report on the Schedule of Expenditures of
Federal Awards Required by the Uniform Guidance**

Independent Auditors' Report

To the City Council of
City of Park Falls

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Park Falls' (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2024. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's financial statements. We issued our report thereon dated June xx, 2025, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Milwaukee, Wisconsin
June xx, 2025

City of Park Falls

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2024

DRAFT 6.17.25

Federal Grantor/ Program Title	Assistance Listing Number	Pass-Through Agency	Pass-Through Agency Grant Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	N/A	N/A	\$ 975,000
Total U.S. Department of Housing and Urban Development				975,000
U.S. Department of the Interior				
Outdoor Recreation Acquisition, Development and Planning	15.916	N/A	N/A	280,753
Total U.S. Department of the Interior				280,753
U.S. Department of Transportation				
Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	WI DOT	Airport Rescue Grant	14,684
Safe Streets and Roads for All	20.939	N/A	N/A	144,000
Total U.S. Department of Transportation				158,684
U.S. Environmental Protection Agency				
Congressionally Mandated Projects	66.202	N/A	N/A	1,490,196
Total U.S. Environmental Protection Agency				1,490,196
Total federal programs				\$ 2,904,633

See notes to schedule of expenditures of federal awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Park Falls (the City) under programs of the federal government for the year ended December 31, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned, and the liability is incurred.

3. Indirect Cost Rate

The City has not elected to use the 10% de minimis indirect cost rate.

Section I - Summary of Auditors' Results**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes

 no

Significant deficiency(ies) identified?

 yes

 X none reported

Noncompliance material to financial statements noted?

 yes

 X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes

 X no

Significant deficiencies identified that are not considered to be material weakness(es)?

 yes

 X none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance?

 yes

 X no

Auditee qualified as low-risk auditee?

 yes

 X no

Dollar threshold used to distinguish between type A and type B programs:

 \$750,000

Identification of major federal programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program</u>
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
66.202	Congressionally Mandated Projects

**Section II - Financial Statement Findings Required to Be Reported in Accordance With
Government Auditing Standards**

Finding 2024-001: Internal Control Over Financial Reporting

Criteria: A system of internal control should be in place that provides reasonable assurance that year-end financial statements, including the schedule of expenditures of federal awards, are complete and accurate.

Condition: There is a lack of controls over the year-end financial reporting process. Material journal entries were discovered during the course of the audit and we, as your auditors, prepared the City's financial statements, including the schedule of expenditures of federal awards.

Cause: The City has chosen to have the auditors prepare its annual financial statements, including the schedule of expenditures of federal awards and certain year-end adjustments.

Effect: The City's financial statements may be materially misstated before the annual audit is completed. In addition, the annual financial statements and the schedule of expenditures of federal awards are not available to the City until they are completed by the auditors.

Recommendation: Most small governments operate with only enough staff to process monthly transactions and reports and will continue to rely on outside consultants to handle year-end financial reporting. The City Council should continue to make a reasonable effort to be knowledgeable about the City's financial condition and financial reporting requirements.

Views of Responsible Officials: Because of its size, the City does not feel it is cost effective to hire an additional employee(s) with the experience, technical training and time to prepare its financial statements. Draft copies of reports are reviewed and approved prior to their issuance by management. As such, management will continue to rely on the auditors to assist in preparing the City's financial statements and schedule of expenditures of federal awards and assist with certain year-end adjustments.

Finding 2024-002: Internal Control Environment

Criteria: A system of internal control should be in place to achieve a higher level of reliability that errors or irregularities in your processes would be discovered by your staff. A critical component of a solid internal control system is ensuring that individuals have access to only one phase of an accounting process.

Condition: Some key controls over the payroll, utility billing and monthly and year-end accounting transaction cycles are not in place. There is a general lack of segregation of duties over these areas.

Cause: The City has not assigned duties to have appropriate controls in place.

Effect: Because of the lack of internal controls, it is less likely that errors or irregularities would be discovered internally. Because of the lack of segregation of duties, the accounting records may be misstated.

City of Park Falls

Schedule of Findings and Questioned Costs
Year Ended December 31, 2024

Recommendation: The City's governing body and management should consider whether additional compensating controls are feasible. In the absence of hiring additional staff, the City Council should rely more heavily on their direct knowledge of the City's operations and regular contact with management to control and safeguard assets.

Views of Responsible Officials: The City is aware of the lack of segregation of duties caused by the limited size of its staff. Segregation is enhanced whenever possible, and the council assumes an active role through monthly review of receipt and disbursement transactions and monthly financial statements.

Section III - Federal Awards Findings and Questioned Costs

None.



Reporting and insights from 2024 audit:

City of Park Falls

December 31, 2024

Executive summary

June xx, 2025

To the City Council of
City of Park Falls

We have completed our audit of the financial statements of the City of Park Falls (the City) for the year ended December 31, 2024, and have issued our report thereon dated June xx, 2025. 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.

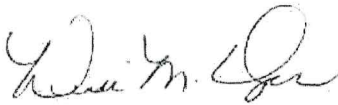
Additionally, we have included information on key risk areas the City should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

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

- Wendi Unger, Principal: wendi.unger@bakertilly.com or +1 (414) 777 5423
- Vanessa Kane, Senior Manager: vanessa.kane@bakertilly.com or +1 (612) 876 4791

Sincerely,

Baker Tilly US, LLP



Wendi Unger, CPA, Principal

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 ADVISORY GROUP, LP AND BAKER TILLY US, LLP, TRADING AS BAKER TILLY, ARE MEMBERS OF THE GLOBAL NETWORK OF BAKER TILLY INTERNATIONAL LTD., THE MEMBERS OF WHICH ARE SEPARATE AND INDEPENDENT LEGAL ENTITIES. BAKER TILLY US, LLP IS A LICENSED CPA FIRM THAT PROVIDES ASSURANCE SERVICES TO ITS CLIENTS. BAKER TILLY ADVISORY GROUP, LP AND ITS SUBSIDIARY ENTITIES PROVIDE TAX AND CONSULTING SERVICES TO THEIR CLIENTS AND ARE NOT LICENSED CPA FIRMS.

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 the City Council:
 - 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*
- Considering internal control over compliance with requirements that could have a direct and material effect on major federal programs to design tests of both controls and compliance with identified requirements
- Forming and expressing an opinion based on our audit in accordance with OMB's *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) about the entity's compliance with requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs.
- Our audit does not relieve management or the City Council of their responsibilities.

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of the City Council, 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

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.

Implementation of GASB No. 101, Compensated Absences

During the current year, the City implemented GASB Statement No.101, *Compensated Absences*. This standard was issued to update the recognition and measurement guidance for compensated absences for state & local government employers. It supersedes GASB No. 16, *Accounting for Compensated Absences*, issued in 1992, as well as earlier guidance, and addresses changes resulting from the types of leave now being offered.

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
Inadequate segregation of duties	Incorporate unpredictability into audit procedures, emphasize professional skepticism, utilize audit team with industry expertise and performance of sufficient substantive procedures.	Procedures identified provided sufficient evidence for our audit opinion.

Other areas of emphasis

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

Other areas of emphasis

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

Internal control matters

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

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

- **Inadequate segregation of duties**

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

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

- **Missing key controls**

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

Controls over accounts payable/disbursements

- Persons processing accounts payable and those with access to the system should be separate from those ordering or receiving goods or services.

- The listing of accounts payable should be reconciled regularly to the general ledger.
- There should be a process for reviewing, recording, and approving retainages at year-end.

Controls over payroll

- Persons preparing the payroll should be independent of other personnel duties or restricted from access to the payroll account.
- There should be a system to authorize and review changes to employee rates and data in the payroll system.
- Year-end accrued payroll should be recorded to ensure proper cutoff between fiscal years and this calculation should be reviewed and approved by an appropriate person.

Controls over property taxes

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

Controls over utility billing

- The entry of new customers and changes in billing rates should be reviewed by someone other than the person who enters the information into the billing system.
- An independent review and approval of adjustments to accounts receivable and account write-offs.
- Persons involved in the cash receipting process should be independent of other billing duties.
- The reconciliation of the detailed listing of receivables in the billing system and the receivable balance in the general ledger should be reviewed by someone independent of the utility billing and cash receipting processes.

Controls over monthly and year-end accounting

- Adjusting journal entries and supporting documentation should be reviewed and approved by an appropriate person who is not the original preparer.
- Account reconciliations prepared throughout the year should be performed by someone independent of processing transactions in the account.
- Year-end reconciliations should be reviewed and approved by someone other than the preparer.
- Trial balances or interim financial statements should be consistently produced and reviewed by the Finance Committee or City Council.

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.
- Complete and accurate schedule of expenditures of federal awards is 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 including the schedule of expenditures of federal awards, 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 or the schedule of expenditures of federal awards that is in conformance with the applicable federal requirements. In addition, material misstatements in the general ledger were identified during the financial audit.

- **Lack of Account Reconciliations**

Adequate monitoring and regular reconciliation of all general ledger accounts, including cash and investment accounts, provides assurance that the City's accounting records are complete and accurate throughout the year. Also, timely preparation of account reconciliations helps reduce the risk that errors or irregularities could go undetected.

As presented in the appendix of this report, our audit procedures resulted in a significant number of adjustments to the City's records to correct year-end balances. These adjustments included corrections needed to reconcile the City's cash and investments, tax related accounts, receivables, capital assets, and accounts payable. The nature and extent of the proposed audit adjustments indicates that additional emphasis needs to be placed reconciling balance sheet accounts to underlying records on a regular basis. The lack of account reconciliations is considered a material weakness in the City's internal controls.

We recommend you approve a process that identifies who is responsible for reconciling each balance sheet account, how often each account should be reconciled, and who should ensure the reconciliations are being performed and/or review such reconciliations. A top priority for the Finance Department should be to reconcile all cash and investment accounts to monthly bank statements. Such reconciliations should be completed within three weeks of month-end and any necessary adjustments should be posted to the general ledger at this time.

Other comments and recommendations

TIF District Audits

The City presently has several Tax Incremental Financing (TIF) Districts which are reported as capital project funds in the financial statements.

In addition to the annual financial statement audit coverage, each district is also required by state statutes to have separate audits throughout their lifetimes of up to 27 years. These are known as TIF compliance audits and are required at the following times:

1. After 30% of the project expenditures are made.
2. After the end of the expenditure period.
3. After the termination of the district.

Each of the audits described contains three separate areas of coverage:

1. Financial audit of the district from date of creation through applicable date.
2. Compliance of the district with the approved project plan.
3. Compliance of the district with state statutes.

The City had previously not been tracking whether the required audits have been completed. We suggest that the City continue evaluating the status of each district's audit requirements set forth by state statutes and taking steps to meet compliance requirements.

Budget Requirements

During the audit, we noted that only a selection of City funds are budgeted for. Our understanding of Wisconsin state statutes regarding municipal budgeting is that all funds are required to be budgeted for, regardless of whether they receive a property tax allocation.

Statute 65.90 specifies the information that should be included in the City's Class 1 Notice regarding the budget public hearing and the budget document adopted by the City.

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

- A. Summary budget for the proposed budget, the budget in effect and the percentage change between the budget of the current year and the proposed budget. A summary budget would include:
 1. All expenditures by major expenditure category for general fund.
 2. All revenues by major revenue source for general fund.
 3. Any financing source and use not included in 1. and 2. above.
 4. All beginning and year-end fund balances for governmental and proprietary funds.
 5. Total revenues and expenditures for each governmental and proprietary fund.
 6. Summary totals of revenues and expenditures (all funds).
 7. Local property taxes for each fund that receives property tax revenue and the total for all funds.
 8. List of budget increases and decreases due to new or discontinued activities.

B. The place where the budget, in detail, is available for public inspection.

C. The time and place for holding the public hearing.

In addition, any budget amendments should be published as a Class 1 Notice within ten days after the change is made.

We recommend that City staff review state statutes pertaining to municipal budgets and incorporate any necessary changes going forward. A legal opinion may be desirable to clarify whether the allocation of property taxes impacts the requirements.

Water Utility Financial Results

The water utility realized a change in net position of \$2,003,949 in 2024 compared to a decrease of (\$200,569) in 2023. \$1.8 million of this related to capital contributions from TIF #5 for utility upgrades. Water utility operating revenues increased \$363,350 over last year, or 43.7 percent. Operating expenses increased \$11,547 over last year, approximately 1.3 percent. The water utility's cash and cash equivalents balance is still \$0 in 2024, with the negative cash balance decreasing \$11,260 in 2024 to \$519,411.

The water utility's 2024 return on rate base was 4.23%, compared to a negative return of (6.8)% for 2023. The return for 2024 is more than the utility's 4.0% authorized return on rate base, as expected with a large project completing late in the year. The current water rates were sufficient to cover the cash needed for current operations and capital expenditures, given the water rate increase that went into effect during 2023. The utility does not currently have any cash reserves. The utility should consider whether additional increases are required to meet future needs.

Wastewater Utility Financial Results

The wastewater utility realized a change in net position of \$1,220,605 in 2024 compared to \$39,284 in 2023. The change in net position includes \$1.2 million of capital contributions from TIF #5 in 2024 for utility upgrades. Wastewater utility operating revenues decreased (\$2,560) over last year, or negative (0.04) percent. Operating expenses increased \$14,055 over last year, approximately 2.1 percent. The wastewater utility's cash and cash equivalents balance decreased (\$46,046) during 2024, due to the timing of invoice payments mostly.

Wastewater rates were last increased effective January 1, 2023. With growing operational and capital costs likely required for meeting DNR requirements for wastewater treatment facilities, we recommend you watch financial results closely and assess whether an increase to wastewater rates will be needed.

Required communications

Qualitative aspect of accounting practices

- Accounting policies: Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1, the City changed accounting policies related to financial reporting for compensated absences by adopting GASB 101, *Compensated Absences*, in 2024. 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 and related deferrals	Evaluation of information provided by the Wisconsin Retirement System	Reasonable in relation to the financial statements as a whole
Depreciation	Evaluate estimated useful life of the asset and original acquisition value and/or PSC guidelines	Reasonable in relation to the financial statements as a whole

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

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

Significant unusual transactions

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

Significant difficulties encountered during the audit

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

Disagreements with management

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

Audit report

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

Audit consultations outside the engagement team

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

Uncorrected misstatements and corrected misstatements

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

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

Other audit findings or issues

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

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

Management's consultations with other accountants

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

Written communications between management and Baker Tilly

The 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.

We will issue a separate document which contains the results of our audit procedures to comply with the Uniform Guidance.

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
- Civic systems software
- Compiled regulatory reports
- Utility rate consulting
- Preparation of the schedule of expenditures of federal awards
- Preparation of Part II of the Data Collection Form

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

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

City Council resources

Our business is to know every aspect of yours and to maintain a constant lookout for what's next. We invite you to learn about some of the trending challenges and opportunities for public sector organizations like yours and how Baker Tilly can help.

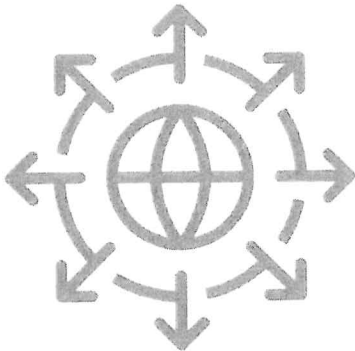
To explore more trending topics and regulatory updates, visit our resource page at <https://www.bakertilly.com/insights/audit-committee-resource-page>.



Funding evaluation and pursuit

Public sector organizations may be eligible for grants, tax credits and other financial incentives through funding opportunities such as the Inflation Reduction Act, the Clean Communities Investment Accelerator, and the Infrastructure Investment and Jobs Act.

Baker Tilly can help you navigate, understand and pursue various federal and state funding sources through grant research and tracking, advising and writing, and management and compliance services.



Digital transformation

Digitizing public services can be a game changer for governments. Streamlining inefficient processes, providing digital access and delivery of services to meet public expectations, implementing technology to protect constituent data, leveraging information to make data-driven decisions and migrating outdated on-premises systems to the cloud are crucial to an entity's success.

Through these types of digital services, Baker Tilly can help you scale with future demand and be better positioned to rapidly respond to changing demands.



Cybersecurity

Public sector organizations face significant challenges from cyber threats and IT regulations. It can feel like you are on the defense keeping up with the latest risks, regulations and emerging trends. To mitigate risk, you must understand your organization's unique vulnerabilities, cybersecurity processes and controls.

Baker Tilly can help enhance your cybersecurity posture and ensure compliance, with solutions in IT compliance and security and cybersecurity and data protection to safeguard your data and navigate complex risk environments.

Management representation letter