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Reporting and insights from 2022 audit:

Metropolitan Alliance of Connected Communities

December 31, 2022

Executive summary

October 11, 2023

To the Board of Directors
Metropolitan Alliance of Connected Communities
414 S. 8th
Minneapolis, MN 55404

We have completed our audit of the consolidated financial statements of Metropolitan Alliance of Connected Communities (the Organization) for the year ended December 31, 2022, and have issued our report thereon dated October 11, 2023. This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your consolidated financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of the Organization'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.

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

- Rebekah Martin, Partner: rebekah.martin@bakertilly.com or +1 (612) 876 4869
- Corbitt Nixon, Senior Manager: corbitt.nixon@bakertilly.com or +1 (612) 876 4598

Sincerely,

Baker Tilly US, LLP

Rebekah L Martin

Rebekah Martin, Partner

Responsibilities

Our responsibilities

As your independent auditor, our responsibilities include:

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

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

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

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 Organization and the environment in which you operate, we focused our audit on the following key areas:

- Key transaction cycles
- Areas with significant estimates
- Review, recompute and substantiate financial statement amounts and disclosures
- Review application and disclosures for new accounting standards adopted
- Existence, valuation and proper classification of grants and pledges receivable
- Payroll and other expenses
- Net assets and compliance with donor restrictions

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 Organization’s current year results.

Key areas of focus and significant issues

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	Inquired of management and performed targeted testing of journal entries	Procedures identified provided sufficient evidence for our audit opinion. Significant deficiency identified and reported
Improper revenue recognition due to fraud	Sampled individual transactions	Procedures identified provided sufficient evidence for our audit opinion
Lack of segregation of duties	Reviewed manual journal entries and estimates and performed targeted testing	Procedures identified provided sufficient evidence for our audit opinion. Significant deficiency identified and reported

Internal control matters

In planning and performing our audit of the financial statements, we considered the Organization'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, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 did not identify material weaknesses over the course of the 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 identified the following deficiency as a significant deficiency:

Segregation of duties

In the ideal internal control structure, the origination and completion of single transactions are never under the control of the same individual. Each transaction passes through two or more individuals with the result that one is under the review of another. In an environment where this is not the case, errors may go undetected. While the Organization has a control structure designed to optimize segregation of duties where possible, it was noted there lacks complete and appropriate segregation of duties within the accounting and financial reporting functions. It is important for those charged with governance to be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls rest in those charged with governance's knowledge and monitoring of matters relating to the Organization's financial affairs. It is important for the Board to recognize the importance of their duties and document its implementation on an ongoing basis.

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 Organization are described in Note 1 to the financial statements. As described in Note 1, the Organization changed accounting policies related to; leases, by adopting Accounting Standards Update (ASU) No. 2016-02, *Leases* in 2022, and contributed nonfinancial assets by adopting ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* in 2022. We noted no transactions entered into by the Organization 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 consolidated 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 consolidated financial statements:

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Collectability of accounts receivable	Management calculates the allowance for doubtful accounts based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year.	Methodology is reasonable and consistently applied.

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

Difficulties encountered during the audit

We did not encounter significant difficulties during the audit. Please refer to management's suggestions section of this letter as it relates to challenges in understanding revenue and timing of true-up adjustments.

Disagreements with management

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

Audit report

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

Audit consultations outside the engagement team

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

Uncorrected misstatements and corrected misstatements

Professional standards require us to accumulate misstatements identified during the audit, other than those that are clearly trivial, and to communicate accumulated misstatements to management. The attached schedule summarizes the uncorrected misstatements that we presented to management, other than those that are clearly trivial, that, in our judgment, may not have been detected except through our auditing procedures. In our judgment, the uncorrected misstatements do not indicate matters that could have had a significant effect on the Organization’s financial reporting process.

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

You have been provided copies of other material written communications, including a copy of the engagement letter, the draft auditors’ report and a draft of the management representation letter.

Compliance with laws and regulations

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

Fraud

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

Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of the Organization’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 Organization that, in our professional judgment, may reasonably be thought to bear on our independence.

Related parties

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

Nonattest services

The following nonattest services were provided by Baker Tilly:

- Preparation of tax returns
- Preparation of financial statements

Management suggestions

During our audit we identified an opportunity for strengthening internal controls and Board oversight. The below suggestion summarizes our suggestion regarding this matter.

Currently MACC processes payroll disbursements for itself and all member clients through the same bank account, leading to the comingling of funds for multiple entities. We recommend management utilize bank accounts designated for client members payroll processing, that is separate from the account that MACC uses for its own payments, to eliminate a concern over rights and obligations regarding the funds that exist within these accounts.

Management should consider a more timely process to true-up fees related to services provided to members throughout the year. Currently true up calculations are completed at the end of every year, once audits are completed. It is suggested that MACC consider calculating the fees for services ahead of the year the services are performed providing for a more streamlined process of recognizing revenue in their general ledger and related expenses at the member organizations.

Audit committee resources

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

Visit the not-for-profit resource page at https://www.bakertilly.com/insights/audit-committee-resource-page.

Metropolitan Alliance of Connected Communities

SUMMARY OF PASSED ADJUSTING JOURNAL ENTRY
FOR COMMUNICATION TO MANAGEMENT AND GOVERNING BOARD
For the Year Ended December 31, 2022

	Financial Statement Effect Increase (Decrease) to Financial Statement Total				
Description	Assets	Liabilities	Revenue	Expense	Net Assets
To reclass credit balances of accounts receivable to accounts payable	$ (10,283)	$ 10,283	$ -	$ -	$ -
To write off accounts receivable older than 1 year	(8,957)	-	-	8,957	(8,957)
To reclass debit balances in accounts payable to receivables	11,480	(11,480)	-	(11,480)	11,480
Current Year Net Audit Differences	(7,759)	(1,197)	-	(2,524)	2,524
Cumulative Effect of Prior Year's Differences					28,740
Total Uncorrected Differences					$ 31,264

Accounting changes relevant to Metropolitan Alliance of Connected Communities

Accounting standards update

ASU	Description	Impacts you
2016-13	Financial Instruments – Credit Losses (Topic 326: Measurement of Credit Losses on Financial Instruments	✓

Tax update

IRS revenue proclamations and other tax updates

Update	Description	Impacts you
Section 512(a)(6) – Form 990-T separate entity reporting	No longer can organizations consolidate UBI activities. Loss activities cannot offset income activities.	✓
Exceptions for remote employees: some states but not all	At the outset of the pandemic, numerous states worked to counterbalance emergency stay-at-home orders with assurances for certain tax-related exceptions for remote employees because of the pandemic and emergency orders. Some states made exceptions to normal nexus, withholding and reporting requirements during the period that emergency orders were in effect, but those grace periods may have ended. In addition to payroll tax-related compliance matters, having an employee physically located in another state often establishes nexus and a compliance requirement for other tax types such as business income, sales and use tax, excise taxes, etc.	✓
Gift acceptance policy	With the increased use of cryptocurrency by the general public, organizations may want to review their gift acceptance policies to ensure the policies address methods for accepting and processing a donation of cryptocurrency to the organization.	✓