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City Council
City of Scandia
Scandia, Minnesota

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 of Scandia for the year ended December 31, 2007, and have issued our report thereon dated May 27, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated December 14, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Scandia. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Scandia's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other Information in Documents Containing Audited Financial Statements

Our audit opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a client prepared document, such as an annual report, should be done only with our prior approval and review of the document. Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in such documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 28, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Scandia are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

We noted no transactions entered into by the Governmental Unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting 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 and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Estimated useful lives of Sewer Fund depreciable capital assets - Management's estimate of useful lives for depreciable assets is based on guidance recommended by authoritative accounting literature and past experiences. The useful life of a depreciable asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

Estimated current portion of compensated absences payable – Management's estimate of the amount of the year-end compensated absences payable balance to be taken by employees within one year of December 31, 2007 is based on historical trends and anticipated leave time activity.

We evaluated the key factors and assumptions used to develop the above estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, we proposed audit adjustments to correct material misstatements detected as a result of audit procedures in the areas of cash, receivables, accounts payable, accrued liabilities, equity, revenues and expenditures. These audit adjustments were posted by management.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 27, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Governmental Unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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 Governmental Unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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This report is intended solely for the use of the City Council and management of the City of Scandia and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
May 27, 2008

CITY OF SCANDIA
PASSED ADJUSTING JOURNAL ENTRY
DECEMBER 31, 2007

Account Description	DR	CR
GOVERNMENT-WIDE FINANCIAL STATEMENTS		
Taxes Revenue	$ 2,300	
Special Assessments Revenue	3,723	
Net Assets		$ 6,023
POLICE FUND		
Taxes Revenue	1,378	
Net Assets		1,378
2002 IMPROVEMENT BOND FUND		
Taxes Revenue	280	
Special Assessment Revenue	1,141	
Net Assets		1,421
2004 IMPROVEMENT BOND FUND		
Taxes Revenue	489	
Special Assessment Revenue	2,582	
Net Assets		3,071
NONMAJOR FUNDS		
Taxes Revenue	153	
Net Assets		153
Pass on prior period adjustment to properly record taxes, special assessments, and net assets.		
	$ 12,046	$ 12,046