

CITY OF SCANDIA, MINNESOTA

**REPORT TO MEMBERS
OF GOVERNANCE**

APRIL 5, 2016

**CITY OF SCANDIA, MINNESOTA
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April 5, 2016

Members of Governance
City of Scandia, Minnesota

We are pleased to present this report related to our audit of the basic financial statements of the City of Scandia (the City) for the year ended December 31, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the members of governance and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the City.

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CITY OF SCANDIA, MINNESOTA REQUIRED COMMUNICATIONS

Generally accepted auditing standards (AU-C260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Auditor's Responsibility under Professional Standards

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated October 22, 2013.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

Accounting Practices

Preferability of Accounting Policies and Practices

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City.

Effective December 31, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The effect of the implementation reflects the City's share of the applicable Public Employees Retirement Association retirement plans' net pension asset/liability and related balances on the Statement of Net Position.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. There are no accounting estimates that we have deemed significant to the financial statements.

**CITY OF SCANDIA, MINNESOTA
REQUIRED COMMUNICATIONS**

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.

There were no uncorrected misstatements discovered during the course of our audit.

Audit adjustments recorded by the Organization are shown on the attached Exhibit A.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management during the audit.

Letter Communicating Material Weaknesses

We have separately communicated the material weaknesses identified during our audit of the financial statements, and this communication is included within the compliance section of the City's financial report for the year ended December 31, 2015.

Certain Written Communications Between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated April 5, 2016.

EXHIBIT A

**SUMMARY OF RECORDED
AUDIT ADJUSTMENTS**

Client: **3559 - City of Scandia**
 Engagement: **12-15 AUD - City of Scandia**
 Period Ending: **12/31/2015**
 Trial Balance: **3000.00 - TB**
 Workpaper: **0204.00 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
To record interest for year end and tie out bank reconciliation.				
408-43100-36210	Interest Income		731.00	
408-10100	Cash			731.00
Total			731.00	731.00
Adjusting Journal Entries JE # 2				
To reverse journal entries made by the client between interest earnings and property tax revenues.				
101-41000-31000	Washington Cty. Tax Settlement		463.00	
101-41000-31000	Washington Cty. Tax Settlement		683.00	
101-41000-31000	Washington Cty. Tax Settlement		1,147.00	
101-41000-36210	Interest Income			2,293.00
Total			2,293.00	2,293.00
Adjusting Journal Entries JE # 3				
To reverse impact of closing entries 2015-1 and 2015-2, which improperly reallocated special assessment revenue to interest revenue.				
408-43100-36210	Interest Income		1,232.00	
602-43210-36210	Interest Income		331.00	
408-43100-36100	Special Assessments			1,232.00
602-43210-36100	Special Assessments			331.00
Total			1,563.00	1,563.00
Adjusting Journal Entries JE # 4				
To adjust delinquent property tax receivables to agree to the outstanding balance per the levybook from the County.				
101-10700	Taxes Receivable-Delinquent		28,826.00	
101-22201	Deferred Rev Delinquent Tax			28,826.00
Total			28,826.00	28,826.00
Adjusting Journal Entries JE # 5				
To adjust special assessment receivables based on reports from the County.				
307-22200	Special Assessment Revenue		26,426.00	
602-12300	Special Assess Rec-Deferred		2,019.00	
307-12300	Special Assess Rec-Deferred			26,426.00
602-43210-36100	Special Assessments			2,019.00
Total			28,445.00	28,445.00
Adjusting Journal Entries JE # 6				
To record AP in fund 408 that was eliminated from the 101 fund via client JE #6.				
408-20200	Accounts Payable		9,877.00	
408-43100-530	Capital Impr Other Than Bldgs			9,877.00
Total			9,877.00	9,877.00

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 Trial Balance: **3000.00 - TB**
 Workpaper: **0204.00 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 7				
To reallocate capital asset expenses to proper funds, per discussion with Colleen.				
101-10100	Cash		198.00	
101-10100	Cash		1,238.00	
401-48000-530	Capital Impr Other Than Bldgs		1,238.00	
408-43100-530	Capital Impr Other Than Bldgs		198.00	
101-43000-303	Engineering Fees			518.00
101-43000-303	Engineering Fees			720.00
101-43000-319	Other Services			198.00
401-10100	Cash			1,238.00
408-10100	Cash			198.00
Total			2,872.00	2,872.00
Adjusting Journal Entries JE # 8				
To adjust accumulated depreciation in the proprietary funds to agree to capital asset schedules.				
602-16310	Accumulative Depreciation		1,226.00	
602-43210-420	Depreciation Expense			1,226.00
Total			1,226.00	1,226.00
Adjusting Journal Entries JE # 9				
To record adjustment to beginning fund balances for pension liability and outflow balances at the beginning of the year.				
602-17000	Deferred Outflows - Pension		696.00	
602-25301	Fund Balance - Change in Accounting Principle		13,910.00	
612-17000	Deferred Outflows - Pension		172.00	
612-25301	Fund Balance - Change in Accounting Principle		4,151.00	
602-24000	Net Pension Liability			13,910.00
602-25301	Fund Balance - Change in Accounting Principle			696.00
612-24000	Net Pension Liability			4,151.00
612-25301	Fund Balance - Change in Accounting Principle			172.00
Total			18,929.00	18,929.00
Adjusting Journal Entries JE # 10				
To record current year activity related to changes in pension liability, deferred inflows and outflows, and expense.				
602-17000	Deferred Outflows - Pension		1,827.00	
602-43210-120	Pension Expense		398.00	
612-17000	Deferred Outflows - Pension		515.00	
612-43210-120	Pension Expense		149.00	
602-24000	Net Pension Liability			1,451.00
602-24100	Deferred Inflows - Pension			774.00
612-24000	Net Pension Liability			433.00
612-24100	Deferred Inflows - Pension			231.00
Total			2,889.00	2,889.00
Adjusting Journal Entries JE # 11				
To eliminate negative balance in Uptown Sewer fund.				
101-10600	DUE FROM OTHER FUNDS		144.00	
612-10100	Cash		144.00	
101-10100	Cash			144.00
612-23000	DUE TO OTHER FUNDS			144.00
Total			288.00	288.00

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 Engagement: **12-15 AUD - City of Scandia**
 Period Ending: **12/31/2015**
 Trial Balance: **3000.00 - TB**
 Workpaper: **0204.00 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 12				
To record receivable and related deferral for additional deferred assessments due to the City.				
307-12300	Special Assess Rec-Deferred		26,108.00	
307-22200	Special Assessment Revenue			26,108.00
Total			<u>26,108.00</u>	<u>26,108.00</u>