

Management
City of Scandia
Scandia, Minnesota

In planning and performing our audit of the financial statements of City of Scandia, Minnesota (the City) for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. (We previously reported on the Organization's internal control in our report dated May 5, 2011.) This letter does not affect our report dated May 5, 2011, on the financial statements of City of Scandia.

Fund Balance Reporting Changes

In March 2009, Governmental Accounting Standards Board issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this Statement are effective for the City's fiscal year ending December 31, 2011. Governments that wish to implement earlier than that date are encouraged to do so.

Statement 54 distinguishes between fund balance amounts that are considered *non-spendable*, such as fund balance associated with inventories, and other amounts that are classified based on the relative ability to be spent. Beginning with the most non-spendable classification, fund balances will be reported in the following classifications:

- *Restricted*—amounts constrained by external parties, constitutional provision, or enabling legislation.
- *Committed*—includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.
- *Assigned*—amounts a government intends to use for a particular purpose. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- *Unassigned*—amounts that are not constrained at all will be reported in the general fund or to report deficit balances in other governmental funds.

The new standard also clarifies the definitions of individual governmental fund types. The statement interprets certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. The statement also specifies how economic stabilization or "rainy-day" amounts should be reported.

We look forward to answering the City Council's and your staff's questions and concerns related to the new standards, accounting guidance, or issues that arise throughout the year that impact the City.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

LarsonAllen LLP
LarsonAllen LLP

Minneapolis, Minnesota
May 5, 2011