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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, Minnesota (the City) for the year ended December 31, 2009, and have issued our report thereon dated May 7, 2010. 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 January 7, 2010, 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. 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'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.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
2. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.
3. We are also responsible for communicating matters regarding the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the State Auditor pursuant Minnesota Statute 6.65.

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 City'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 9, 2010.



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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. As described in Note 1, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was effective for the year ended December 31, 2009. Accordingly, the accounting change for other postemployment benefits has been applied prospectively beginning in 2009, as permitted by GASB Statement No. 45. on the City's financial statements. There was no impact on the City's financial statements for adopting GASB Statement No. 45. Also in 2009, the City recorded all capital assets, including infrastructure, in its financial statements; as a result, net assets for the governmental activities and for the sewer fund were restated.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimate affecting the financial statements was:

Estimated useful lives of 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.

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.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the restatement of net assets for the governmental activities and for the sewer fund to record all capital assets including infrastructure.

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. Management has corrected all such misstatements. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

In addition, we proposed audit adjustments to convert the City's records from cash to accrual basis as a result of audit procedures in the areas of cash, receivables, accounts payable, accrued liabilities, fund balance, net assets, revenues and expenditures. These audit adjustments were recorded 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 7, 2010.

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 City'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 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.

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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.

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
May 7, 2010