

TOWN OF IDEAL
Ideal Township, Minnesota

COMMUNICATIONS LETTER

Year Ended December 31, 2016



JUSTIN CLASEN
& COMPANY, LTD.

Certified Public Accountants & Consultants

TOWN OF IDEAL
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**EXECUTIVE AUDIT SUMMARY (EAS)
FOR
TOWN OF IDEAL
YEAR ENDED DECEMBER 31, 2016**

AUDIT FINDINGS AND RESULTS

Audit process- We found the Town's records to be in good order (organized, available, complete, etc.). We appreciate the time that staff took to work with us to complete the engagement.

Audit Opinion – The financial statements are fairly stated. We issued an adverse opinion on US Generally Accepted Accounting Principles and an unmodified (clean) opinion on the Regulatory Basis of Accounting.

Compliance – No compliance issues were noted in our review of laws, regulations, contracts, grant agreements or other matters that could have significant financial implications to the Town, except the Town did not comply with Minnesota state statutes as it relates to bidding.

Internal Controls – Segregation of duties and preparation of financial statements were deemed as material weaknesses. Lack of a formal internal control policy and a fund balance policy and pay and benefit documentation, were noted as significant deficiencies.

Fund Balance – For 2016 the fund balance in the General Fund increased by \$1,976 ending at \$138,248 as of December 31, 2016. The ending fund balance at December 31, 2016, for the Town represents 78.0% of general fund expenditures incurred for the year and is an important aspect in the Town's financial well-being since a healthy fund balance represents things such as cash flow, as a cushion against unanticipated expenditures, funding deficiencies, and aid proration at the state level and similar problems.

Budget and Actual – Total General Fund revenues on a net basis were \$14,122 (or 8.6%) higher than the budgeted amount while total expenditures and other financing uses were \$12,146 (or 7.4%) higher than had been budgeted due to \$40,000 in transfers out of the general fund. As part of any budget update initiated for 2017, the Board of Supervisors will want to take these variances into consideration in order to limit budget differences to every extent possible. We encourage you to undertake mid-year budget reviews resulting in the adoption of a revised General Fund budget when updated information becomes available. Also, having a detailed budget would increase the Town's ability to investigate variances and make informed decisions.

**TOWN OF IDEAL
FINANCIAL SUMMARY
YEAR ENDED DECEMBER 31, 2016**

INDEPENDENT AUDITOR'S REPORT

GOVERNMENTAL FUNDS:

Statement of Balances Arising From Cash Transactions

Cash and Cash Equivalents	\$ 498,683
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Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances

Receipts	\$ 1,080,921
Disbursements	1,603,662
(Deficiency) of Receipts Over Disbursements	(522,741)
Issuance of Debt	424,392
Transfers In	35,000
Transfers Out	(40,000)
Net Change in Cash Fund Balances	<u>\$ (103,349)</u>

PROPRIETARY FUND:

Statement of Balances Arising From Cash Transactions

Cash and Cash Equivalents (Deficit)	\$ (903)
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Statement of Receipts, Disbursements, and Changes in Net Cash Position

Operating Receipts	\$ 63,600
Operating Disbursements	73,869
Operating Cash (Loss)	(10,269)
Nonoperating Receipts	1,989
Transfers In	5,000
Change in Net Cash Position	<u>\$ (3,280)</u>

FIDUCIARY FUND:

Statement of Fiduciary Net Position

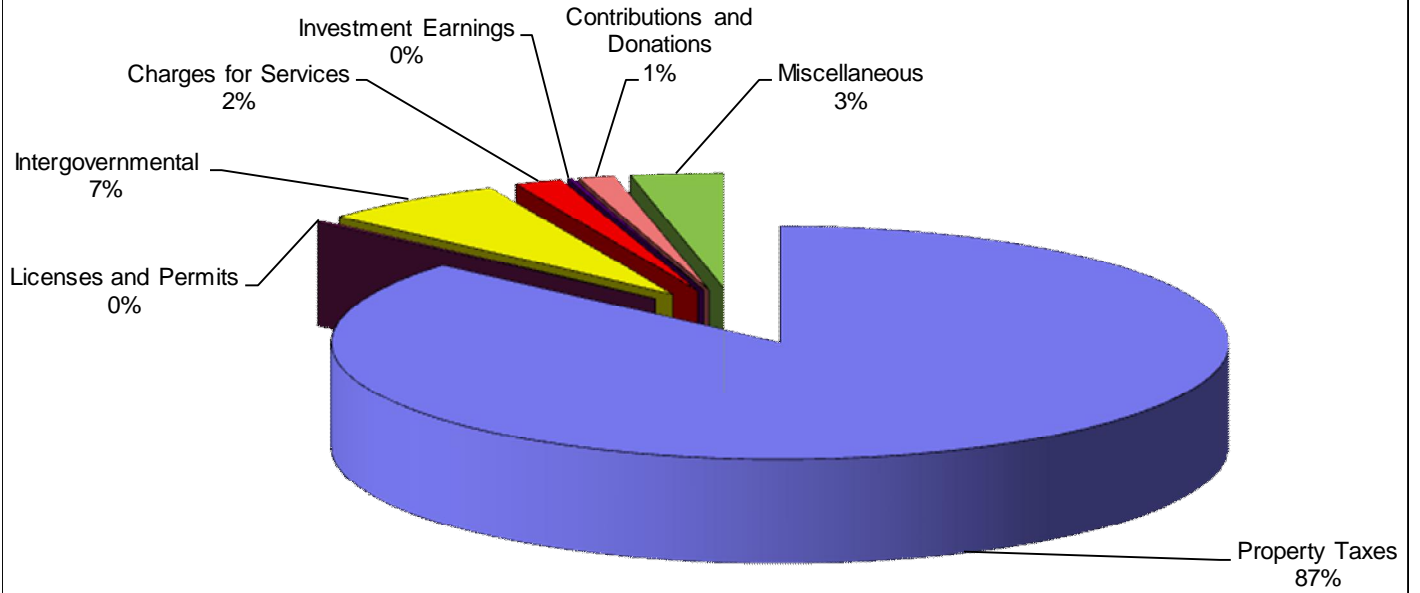
Cash and Cash Equivalents	\$ 74,123
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SUPPLEMENTARY INFORMATION SECTION:

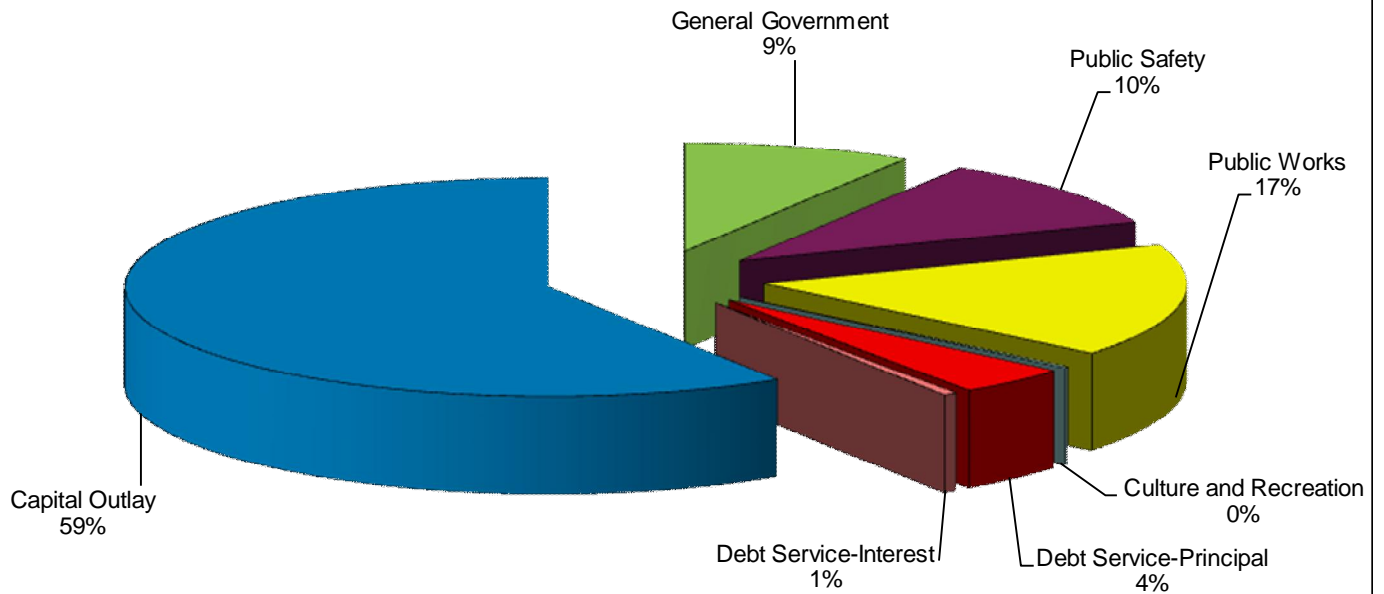
Budgetary Comparison Schedule - Regulatory Basis - General Fund

	Variance
Total Receipts - Positive Variance	\$ 14,122
Total Disbursements and Other Financing Uses - Negative Variance	(12,146)
Budgetary Fund Balance with a Positive Variance	<u>\$ 1,976</u>

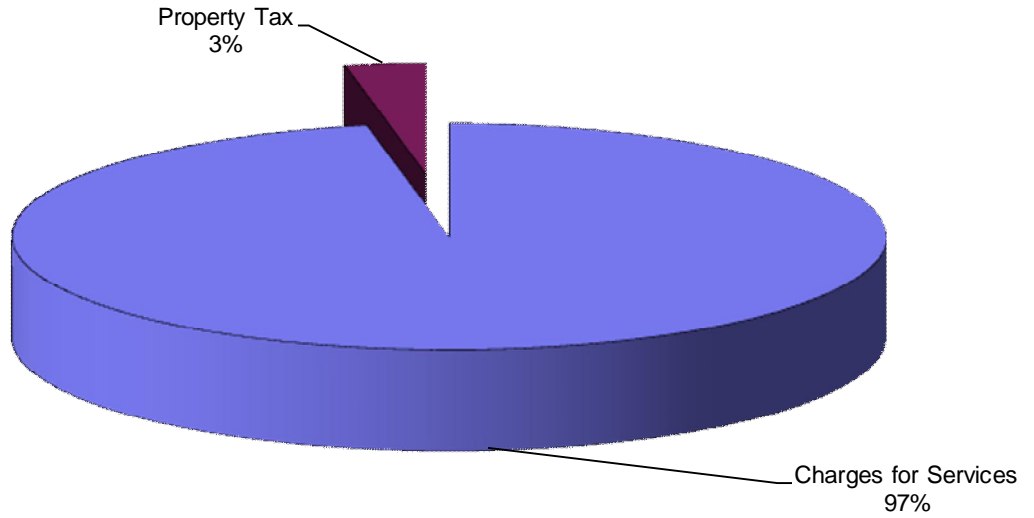
**Town of Ideal
Governmental Funds
Receipts
Year Ended December 31, 2016**



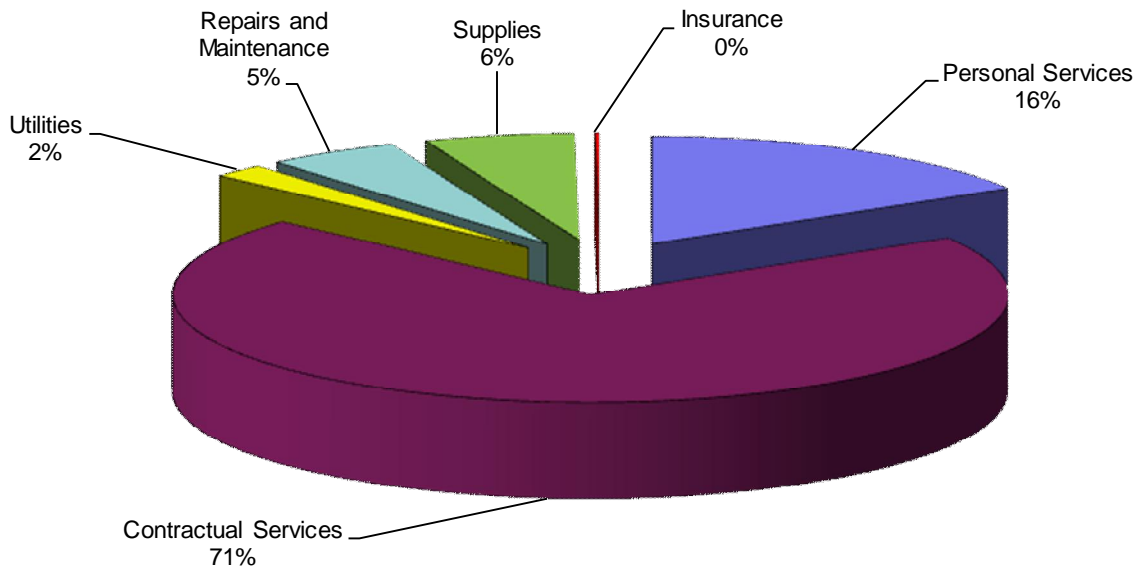
**Town of Ideal
Governmental Funds
Disbursements
Year Ended December 31, 2016**



**Town of Ideal
Proprietary Fund
Receipts
Year Ended December 31, 2016**



**Town of Ideal
Proprietary Fund
Disbursements
Year Ended December 31, 2016**





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REPORT ON MATTERS IDENTIFIED AS A RESULT OF THE AUDIT OF THE FINANCIAL STATEMENTS

Board of Supervisors
Town of Ideal
Ideal Township, Minnesota

In planning and performing our audit of the financial statements of each major fund and the aggregate remaining fund information of the Town of Ideal as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. 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 Town's financial statements will not be prevented, or detected and corrected, on a timely basis. The material weaknesses identified are stated within this letter.

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. The significant deficiencies identified are stated within this letter.



**JUSTIN CLASEN
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Certified Public Accountants & Consultants

This communication is intended solely for the information and use of management (Board of Supervisors) and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Justin, Clasen & Company, Ltd.

Justin, Clasen & Company, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
February 2, 2017

TOWN OF IDEAL

MATERIAL WEAKNESSES

December 31, 2016

2016-001

LACK OF SEGREGATION OF ACCOUNTING DUTIES

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Town and its staffing limits the internal control that management can design and implement into the organization. The management (Board of Supervisors) should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for control over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Internal controls are designed to protect a local government unit from the potential effects of loss or misuse of its assets. Sound internal controls help ensure that transactions are properly authorized and the information contained in financial reports is reliable.

2016-002

PREPARATION OF FINANCIAL STATEMENTS AND RELATED FOOTNOTES

Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with the regulatory basis of accounting, the preparer must have the necessary expertise.

The Town does not have an internal control system designed to provide for the preparation of the financial statements being audited. Town personnel do prepare periodic financial statements and other financial information for internal use that meets the needs of management. However, the Town does not have the internal resources to prepare full-disclosure financial statements required by the regulatory basis of accounting for external reporting. As auditors, we were requested to draft the financial statements and accompanying footnotes.

This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

This control deficiency is not unusual in a small Town. However, it is the responsibility of management (Board of Supervisors) to decide whether to accept the degree of risk associated with this condition based on the cost of correction and other considerations.

TOWN OF IDEAL
DEFICIENCIES
December 31, 2016

2016-003

FORMAL INTERNAL CONTROL POLICY

A formal, written internal control policy is recommended by the Minnesota Office of the State Auditor to be established and implemented.

The control policies should be adequate to ensure that:

- § All transactions are properly authorized;
- § Incompatible duties are segregated;
- § Accounting records and documentation are properly designed and maintained;
- § Access to both assets and records is controlled; and
- § Accounting data are periodically compared with the underlying items they represent.

Proper documentation of control procedures is essential. Written policies and procedures outline the specific authority and responsibility of individual employees, providing for accountability. Written policies serve as a reference and training tool for new employees and ensure that procedures remain in place despite employee turnover. To be effective, an accounting policies and procedures manual must be complete, up-to-date, and readily available to all employees who need it.

2016-004

ADOPTION OF COMPREHENSIVE FUND BALANCE POLICY

The GASB's Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, identifies fund balance accounting policies that a local government may have or should consider. The Office of the State Auditor recommends that each local government establish a formal comprehensive fund balance policy relating to accounting and financial reporting of governmental fund balances. A local government's fund balance policy could address the following areas:

- § Minimum fund balance
- § Order of resource use
- § Stabilization arrangements
- § Committed fund balance
- § Assigned fund balance

The Town should establish/approve the comprehensive fund balance policy. Potential effects of not adopting this policy could render misapplication of intended fund balance allocations.

TOWN OF IDEAL
DEFICIENCIES
December 31, 2016

2016-005

PAY AND BENEFITS DOCUMENTATION

Accurate documentation of employee pay and benefits is essential.

A well-written employment contract can often prevent issues from arising in employment situations. Where a written contract is not used, it is especially important for governing bodies to accurately record pay and benefit decisions in the meeting minutes. This is true for decisions about individual employees and for decisions about employee benefits generally.

If pay and benefit decisions are not accurately documented, needless disputes may arise over pay raises, employer contributions to health insurance payments, accrual of leave time, and other payroll matters.

TOWN OF IDEAL

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS December 31, 2016

STATUS OF PRIOR AUDIT FINDINGS

The prior audit contained six findings:

Material Weakness

2015-001 Segregation of Duties

<i>Condition:</i>	The Town has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. This finding was again noted for the current year.
<i>Current Status:</i>	This condition is noted during the current year audit of the financial statements.

Deficiencies

2015-002 Formal Internal Control Policy

<i>Condition:</i>	The Town does not have a formal internal control policy. This finding was again noted for the current year.
<i>Current Status:</i>	This condition is noted during the current year audit of the financial statements.

2015-003 Monitoring Internal Controls

<i>Condition:</i>	The Town needs to monitor their internal control on a regular basis to determine if the controls are still effective.
<i>Current Status:</i>	This condition is not noted during the current year audit of the financial statements.

2015-004 Employee Timekeeping and Payroll Procedures

<i>Condition:</i>	The Town does not have a system of internal controls to ensure that timekeeping and payroll methods are accurate and reliable.
<i>Current Status:</i>	This condition is not noted during the current year audit of the financial statements.

TOWN OF IDEAL

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
December 31, 2016**

STATUS OF PRIOR AUDIT FINDINGS

Deficiencies (Continued)

2015-005 Pay and Benefits Documentation

<i>Condition:</i>	The Town does not have a well written employment contract.
<i>Current Status:</i>	This condition is noted during the current year audit of the financial statements.

2015-006 Transfers

<i>Condition:</i>	The Town does not approve transfers as a separate agenda item.
<i>Current Status:</i>	This condition is not noted during the current year audit of the financial statements.



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REQUIRED COMMUNICATION

Board of Supervisors
Town of Ideal
Ideal Township, Minnesota

We have audited the financial statements of each major fund and the aggregate remaining fund information of the Town of Ideal for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated May 19, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town 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 2016. We noted no transactions entered into by the governmental unit 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 in accordance with regulatory basis accounting.

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:

Allocation of multiple expenditures, based on an estimated percentage, across governmental and proprietary funds.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

As described in Note 1 of the financial statements, the financial statements are prepared by the Town using accounting practices prescribed or permitted by the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America.



The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

The financial statement disclosures are neutral, consistent, and clear.

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 clearly trivial, and communicate them to the appropriate level of management. The following is the only uncorrected misstatement in the financial statements: Decrease general fund HSA contribution and increase road and bridge fund HSA contribution in the amount of \$1,000. Management has determined that the effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's 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 February 2, 2017.

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 auditor's 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.

Other Matters

With respect to the supplementary information which accompanies the financial statements but is not RSI, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the regulatory basis of accounting as required by the Minnesota Office of the State Auditor, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the supplementary information, which accompanies the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Restriction on Use

This communication is intended solely for the use of the Board of Supervisors and management of the Town of Ideal and is not intended to be and should not be used by anyone other than these specified parties.

Justin, Clasen & Company, Ltd.

Justin, Clasen & Company, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
February 2, 2017