

**TOWN OF IDEAL**  
Ideal Township, Minnesota

**COMMUNICATIONS LETTER**

Year Ended December 31, 2017



**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, 2017**

**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 was deemed a material weakness. Preparation of financial statements, lack of a formal internal control policy, and pay and benefit documentation were noted as significant deficiencies.

**Fund Balance** – For 2017 the fund balance in the General Fund increased by \$30,898 ending at \$169,146 as of December 31, 2017. The ending fund balance at December 31, 2017, for the Town represents 106.2% 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 receipts on a net basis were \$2,349 (or 1.3%) higher than the budgeted amount while total disbursements and other financing uses were \$15,761 (or 9.0%) lower than had been budgeted. As part of any budget update initiated for 2018, 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, 2017**

**INDEPENDENT AUDITOR'S REPORT**

**GOVERNMENTAL FUNDS:**

Statement of Balances Arising From Cash Transactions

Cash and Cash Equivalents	<u><u>\$ 603,438</u></u>
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Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances

Receipts	\$ 1,131,155
Disbursements	(1,006,400)
Transfers Out	<u>(20,000)</u>
Net Change in Cash Fund Balances	<u><u>\$ 104,755</u></u>

**PROPRIETARY FUND:**

Statement of Balances Arising From Cash Transactions

Cash and Cash Equivalents	<u><u>\$ 11,886</u></u>
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Statement of Receipts, Disbursements, and Changes in Net Cash Position

Operating Receipts	\$ 64,542
Operating Disbursements	<u>(77,881)</u>
Operating Cash (Loss)	(13,339)
Nonoperating Receipts	6,128
Transfers In	<u>20,000</u>
Change in Net Cash Position	<u><u>\$ 12,789</u></u>

**FIDUCIARY FUNDS:**

Statement of Fiduciary Net Position

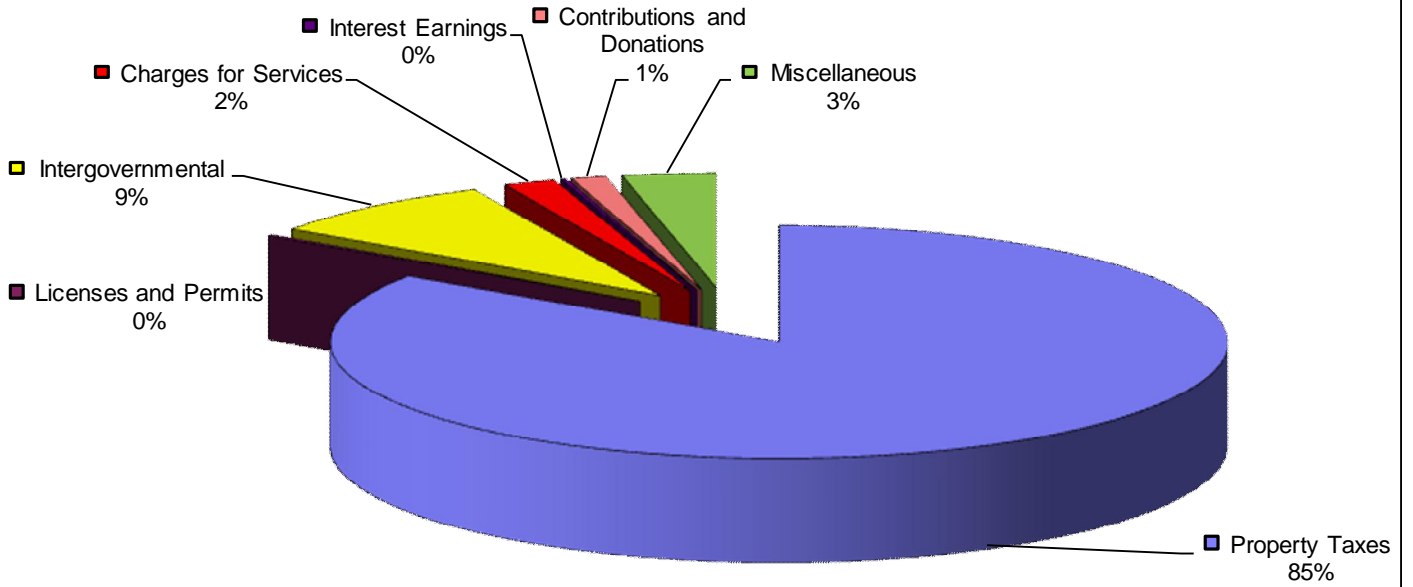
Cash and Cash Equivalents	<u><u>\$ 73,737</u></u>
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**SUPPLEMENTARY INFORMATION SECTION:**

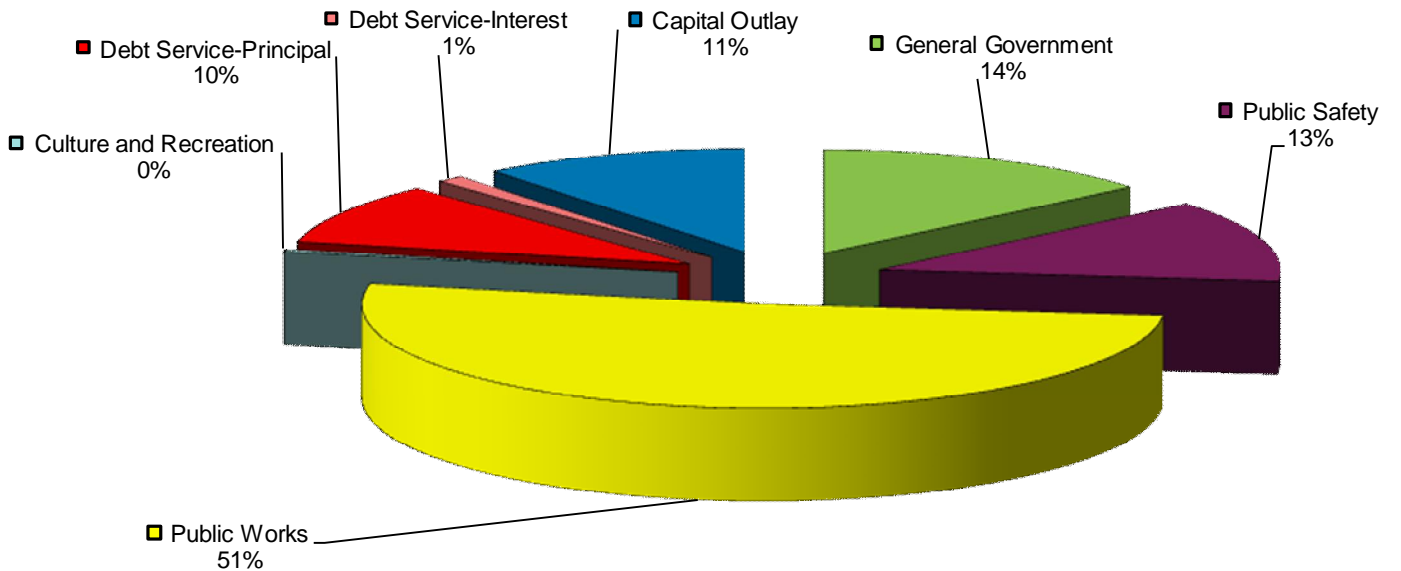
Budgetary Comparison Schedule - Regulatory Basis - General Fund

	Variance
Total Receipts - Positive Variance	\$ 2,349
Total Disbursements and Other Financing Uses - Positive Variance	15,761
Budgetary Fund Balance with a Positive Variance	<u><u>\$ 18,110</u></u>

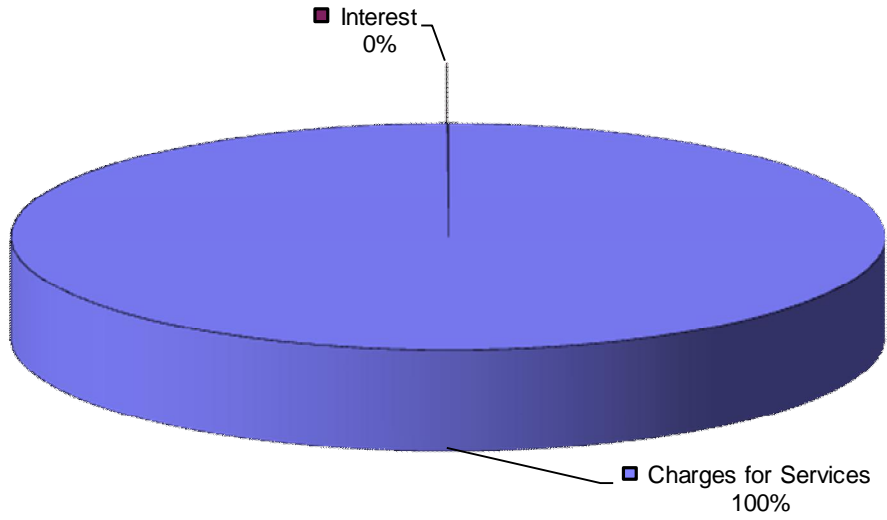
**Town of Ideal  
Governmental Funds  
Receipts  
Year Ended December 31, 2016**



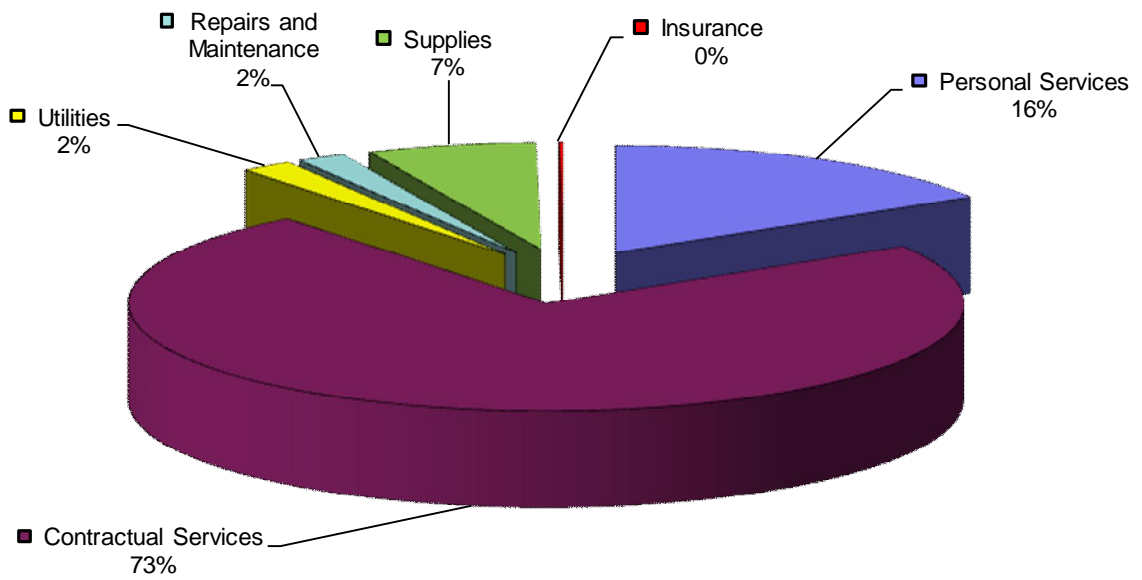
**Town of Ideal  
Governmental Funds  
Disbursements  
Year Ended December 31, 2016**



**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, Minnesota (the Town), as of and for the year ended December 31, 2017, 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 described in the following sections, we identified a certain deficiency in internal control that we consider to be a material weakness 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 a 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 weakness identified is 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. We consider deficiency 2017-001 in the following sections to be a material weakness and items 2017-002 – 2017-004 to be significant deficiencies.



**JUSTIN CLASEN  
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This communication is intended solely for the information and use of management, the Board of Supervisors, and others within the Town, 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 & Consultants

Pequot Lakes, Minnesota  
January 30, 2018



# TOWN OF IDEAL

## MATERIAL WEAKNESS

December 31, 2017

**2017-001**

### **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.

## **DEFICIENCIES**

**2017-002**

### **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, 2017**

**2017-003**

**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.

**2017-004**

**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, 2017

### STATUS OF PRIOR AUDIT FINDINGS

The prior audit contained five findings:

#### Material Weakness

##### 2016-001 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.
<i>Current Status:</i>	This condition is noted again during the current year audit of the financial statements.

##### 2016-002 Preparation of Financial Statements and Related Footnotes

<i>Condition:</i>	The Town does not have an internal control system designed to provide for the preparation of the financial statements.
<i>Current Status:</i>	This condition is noted again during the current year audit of the financial statements.

#### Deficiencies

##### 2016-003 Formal Internal Control Policy

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

##### 2016-004 Adoption of a Comprehensive Fund Balance Policy

<i>Condition:</i>	The Town is not adhering to the recommendations in GASB 54 to establish and adopt a comprehensive fund balance policy.
<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, 2017  
(Continued)**

**STATUS OF PRIOR AUDIT FINDINGS**

Deficiencies (Continued)

2016-005 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 again 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, Minnesota (the Town), for the year ended December 31, 2017. 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 to you dated November 29, 2017. 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 2017. We noted no transactions entered into by the Town 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:

Allocation of multiple expenditures, based on an estimated percentage, across governmental and proprietary funds. We evaluated the key factors and assumptions used to develop the allocation 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:

As described in Note 1 of the financial statements, the financial statements are prepared by the Town using the Regulatory Basis of Accounting prescribed 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. Management has corrected all such misstatements.

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 January 30, 2018.

### **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 Town'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 Town'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**

We were not engaged to report on the introductory or supplementary information, which accompanies the financial statements but is not required supplementary information (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 them.



**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 & Consultants

Pequot Lakes, Minnesota  
January 30, 2018