

TOWN OF IDEAL
Ideal Township, Minnesota

COMMUNICATIONS LETTER

Year Ended December 31, 2019



Clasen
Stegner &
Schiessl CPAs, Ltd.
Consultants & Accountants

TOWN OF IDEAL
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**EXECUTIVE AUDIT SUMMARY (EAS)
FOR
TOWN OF IDEAL
YEAR ENDED DECEMBER 31, 2019**

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 for the following legal compliance issue: the Town did not comply with the public purpose section of miscellaneous provisions when it paid for a staff luncheon.

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 2019 the fund balance in the General Fund decreased by \$68,229 ending at \$78,324 as of December 31, 2019. The ending fund balance at December 31, 2019, for the Town represents 33.4% of General Fund disbursements, including transfers, incurred for the year and is an important aspect in the Town’s financial well-being since a healthy fund balance represents a cushion against unanticipated disbursements, funding deficiencies, aid proration at the state level and similar problems.

Budget and Actual – Total General Fund receipts on a net basis were \$11,992 (or 7.8%) higher than the budgeted amount while total disbursements and other financing uses were \$53,020 (or 29.2%) higher than had been budgeted. As part of any budget update initiated for 2020, 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 revised budgets 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, 2019**

GOVERNMENTAL FUNDS:

Statement of Balances Arising From Cash Transactions

Cash and Investments	\$ 895,742
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Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances

Receipts	\$ 1,125,754
Disbursements	(911,378)
Proceeds from Sale of Timber	24,952
Net Change in Cash Fund Balances	\$ 239,328

PROPRIETARY FUND:

Statement of Balances Arising From Cash Transactions

Cash and Investments	\$ 25,408
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Statement of Receipts, Disbursements, and Changes in Net Cash Position

Operating Receipts	\$ 79,759
Operating Disbursements	(82,753)
Operating Cash (Loss)	(2,994)
Nonoperating Receipts	12,226
Change in Net Cash Position	\$ 9,232

FIDUCIARY FUNDS:

Statement of Fiduciary Net Position

Cash and Investments	\$ 101,354
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Statement of Changes in Fiduciary Net Position

Additions	\$ 69,522
Deductions	(55,051)
Net Increase in Fiduciary Net Position	\$ 14,471

SUPPLEMENTARY INFORMATION SECTION:

Budgetary Comparison Schedule - Regulatory Basis - General Fund

	Variance
Total Receipts - Positive Variance	\$ 11,992
Total Disbursements and Other Financing Uses - Negative Variance	(53,020)
Budgetary Fund Balance with a Negative Variance	\$ (41,028)

Budgetary Comparison Schedule - Regulatory Basis - Road and Bridge Fund

Total Receipts and Other Financing Sources - Positive Variance	\$ 60,165
Total Disbursements - Positive Variance	3,318
Budgetary Fund Balance with a Positive Variance	\$ 63,483

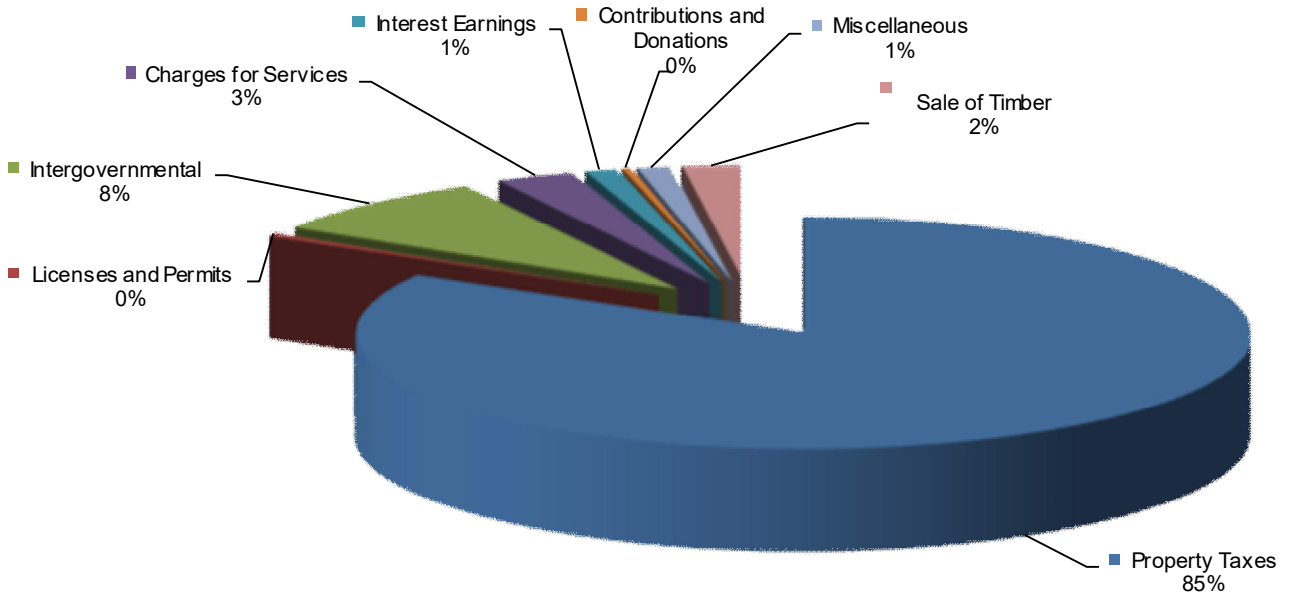
Budgetary Comparison Schedule - Regulatory Basis - Construction Fund

Total Receipts - Positive Variance	\$ 9,794
Total Disbursements - Positive Variance	162,912
Budgetary Fund Balance with a Positive Variance	\$ 172,706

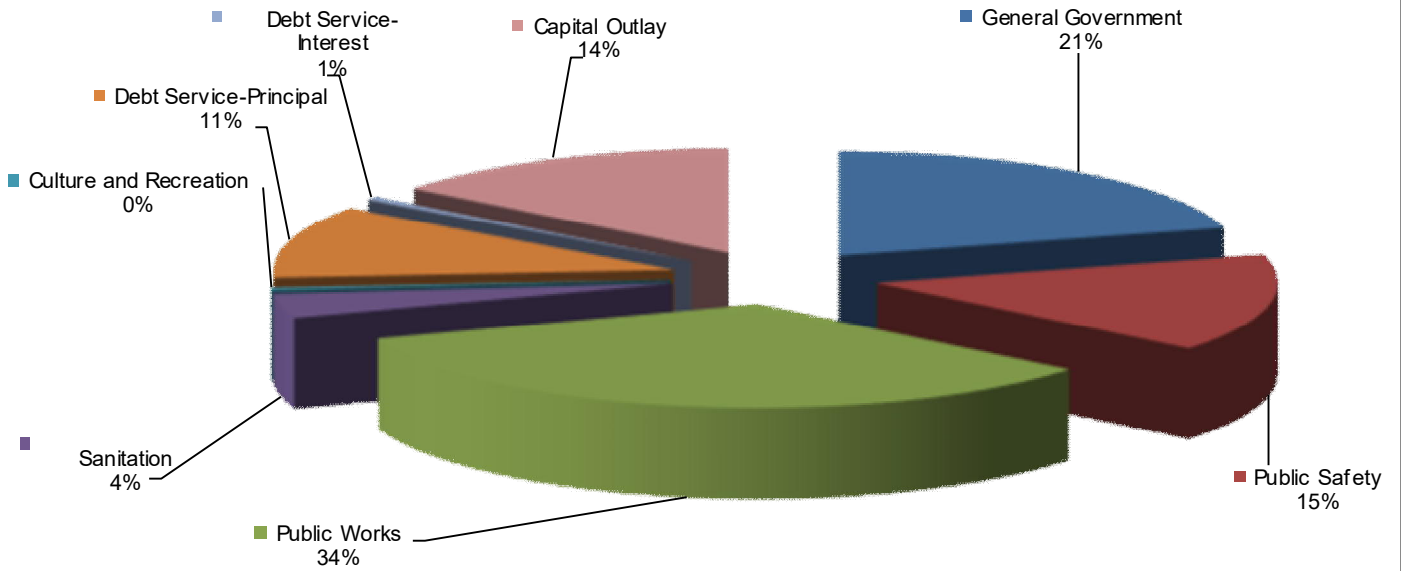
Budgetary Comparison Schedule - Regulatory Basis - Fire Fund

Total Receipts - Positive Variance	\$ 48,534
Total Disbursements - Negative Variance	(50,394)
Budgetary Fund Balance with a Negative Variance	\$ (1,860)

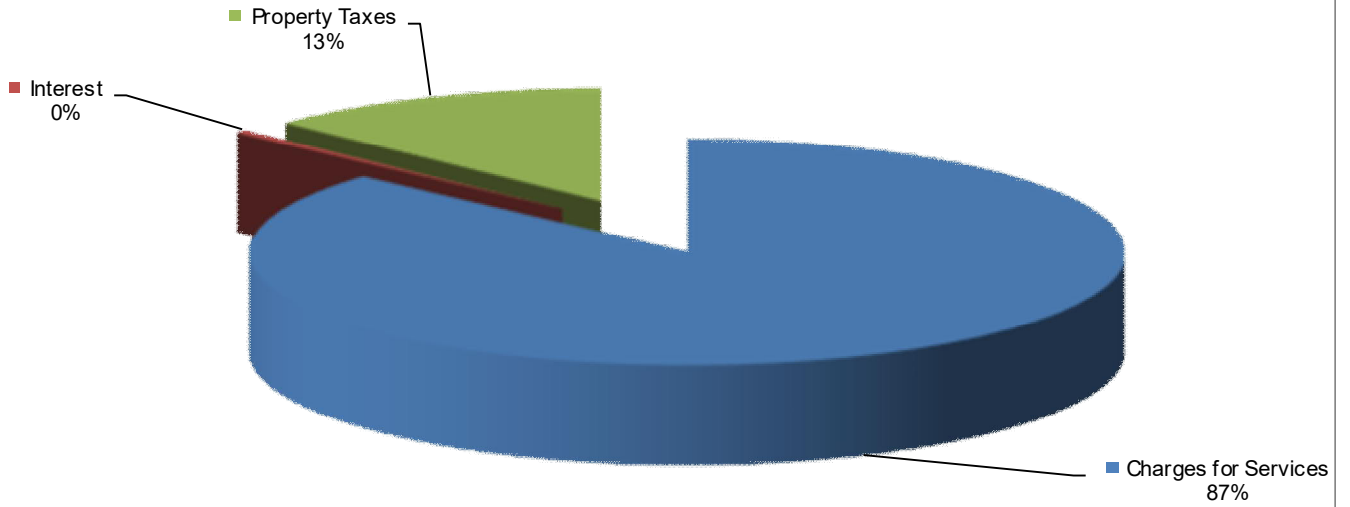
**Town of Ideal
Governmental Funds
Receipts
Year Ended December 31, 2019**



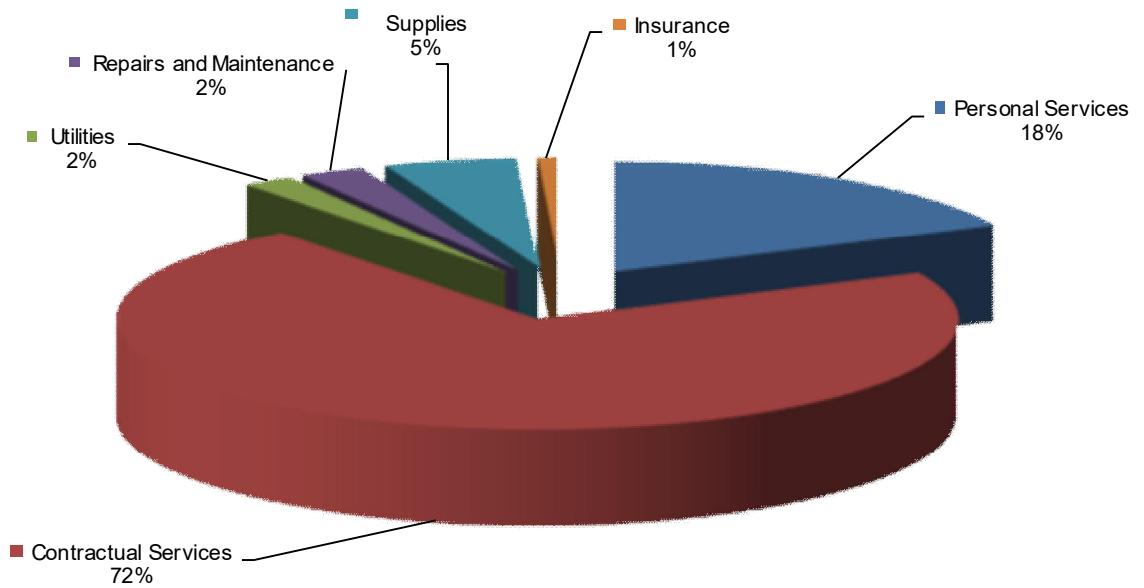
**Town of Ideal
Governmental Funds
Disbursements
Year Ended December 31, 2019**



**Town of Ideal
Proprietary Fund
Receipts
Year Ended December 31, 2019**



**Town of Ideal
Proprietary Fund
Disbursements
Year Ended December 31, 2019**





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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, 2019, 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. We consider deficiency 2019-001 in the following section to be a material weakness.

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 deficiencies 2019-002 – 2019-004 in the following sections, to be significant deficiencies.

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.

Clasen Stegner & Schiessl CPAs, Ltd.
Clasen Stegner & Schiessl CPAs, Ltd.
Consultants & Accountants

Pequot Lakes, Minnesota
February 12, 2020

TOWN OF IDEAL

MATERIAL WEAKNESS

December 31, 2019

2019-001

LACK OF SEGREGATION OF ACCOUNTING DUTIES

The objective of internal control for accounting is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. An essential part of internal control is that procedures are properly segregated and the results of their performance adequately reviewed. This is normally accomplished by assigning duties so that 1) no one person handles a transaction from beginning to end, and 2) incompatible duties between functions are not handled by the same person. In addition, a review of these completed duties should be performed by an individual independent of those functions.

The Organization does not have effective controls to safeguard assets, and prevent or detect misstatements on a timely basis, as a result of a lack of segregation of duties. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. Proper segregation of duties can be difficult to achieve due to the limited Town staff and hiring additional staff may be costly. Additionally, segregation of duties can, at times, lead to inefficiencies in the financial reporting process. Therefore, consideration must be given to the cost of implementing additional controls.

SIGNIFICANT DEFICIENCIES

2019-002

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 and the Board. 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 the 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

SIGNIFICANT DEFICIENCIES December 31, 2019 (Continued)

2019-003

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.

2019-004

PAY AND BENEFITS DOCUMENTATION

Accurate documentation of employee pay and benefits is essential.

A well-written employment contract and personnel policy 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. The personnel policy should be clear about accrual and termination benefits for vacation, sick, and comp time.

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.

LEGAL COMPLIANCE

2019-005

PUBLIC PURPOSE EXPENDITURES

The Town is not allowed to pay for Christmas parties or other social events. The Town board needs to be mindful of legal compliance provisions while reviewing claims for approval.

TOWN OF IDEAL

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS December 31, 2019

STATUS OF PRIOR AUDIT FINDINGS

The prior audit contained four findings:

Material Weakness

2018-001 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.

Significant Deficiencies

2018-002 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.

2018-003 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.

2018-004 Pay and Benefits Documentation

<i>Condition:</i>	The Town needs well written employment contracts and a personnel manual including information on accrual and termination benefits of vacation, sick, and comp time.
<i>Current Status:</i>	This condition is noted again during the current year audit of the financial statements.



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, 2019. 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 December 12, 2019. 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. As described in Note 1 to the financial statements, the Town changed accounting policies related to fiduciary activities by adopting Governmental Accounting Standards Board (GASB Statement) No. 84, *Fiduciary Activities*, and changed debt disclosures by adopting GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in 2019. 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, in accordance with the regulatory basis of 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:

Management's estimate of the 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:

The disclosure of the financial statements being 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, as described in Note 1 to the financial statements.



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 February 12, 2020.

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.



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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.

We recommend that the Town establish a capitalization policy that sets a threshold, above which qualifying disbursements are recorded as capital outlay, and below which they are charged to expenses\expenditures.

Other Matters

We were not engaged to report on the introductory and supplementary information sections, which accompany the financial statements but are 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 information is intended solely for the information and 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.

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Pequot Lakes, Minnesota
February 12, 2020