

CITY OF PAYNESVILLE, MINNESOTA

**REPORT TO THE MEMBERS
OF GOVERNANCE**

MAY 22, 2018

**SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants**

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May 22, 2018

Members of Governance
City of Paynesville, Minnesota

We are pleased to present this report related to our audit of the basic financial statements of the City of Paynesville (the City) as of and for the year ended December 31, 2017. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the members of governance and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the City of Paynesville.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**CITY OF PAYNESVILLE, MINNESOTA
REQUIRED COMMUNICATIONS**

Generally accepted auditing standards (AU-C260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Auditor's Responsibility under Professional Standards

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated December 2, 2016. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.

Accounting Practices

Preferability of Accounting Policies and Practices

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The City did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The only estimate we have deemed significant to the financial statements is the estimate included in the calculation of overall net pension asset/liability and deferred inflows/outflows of resources for the pension plans.

**CITY OF PAYNESVILLE, MINNESOTA
REQUIRED COMMUNICATIONS**

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.

Uncorrected misstatements relate to debt interest payments from prior years that were expensed rather than being capitalized as part of the related construction asset being financed by the debt.

Audit adjustments have been proposed by us and recorded by the City for the purpose of recording year-end balances for assessments, debt, accrued interest, loans receivable, OPEB, and net pension balances, as well as recording current year capital asset activity and depreciation, and reclassifying various revenue and expense activity.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters other than as related to the prior year audit.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management during the audit.

Letter Communicating Material Weaknesses and a Significant Deficiency

We have separately communicated the material weaknesses and significant deficiency identified during our audit of the financial statements, and this communication is included within the compliance section of the City's financial report for the year ended December 31, 2017.

Certain Written Communications Between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated May 22, 2018.

EXHIBIT A

MANAGEMENT LETTER

May 22, 2018

Honorable Mayor and City Council
City of Paynesville
Paynesville, Minnesota

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the City of Paynesville for the year ended December 31, 2017. These items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the City's practices and procedures.

TIF District 1-10

During the year ended December 31, 2014, TIF District 1-10 was decertified. Upon decertification, it appears the District has excess increment remaining in the District. At December 31, 2017, the cash balance in this fund (including cash from interest earnings) totals \$6,018. We recommend management determine if the excess funds are required to be returned to the County or if they may be transferred to another TIF District. Upon selecting the appropriate course of action, the City should then move forward with closing out this fund.

We wish to take this opportunity to express our sincere appreciation for all the courtesies and cooperation extended to us by Renee Eckerly and Belinda Ludwig. We would also like to thank you for the opportunity to serve you. We look forward to serving you in the future.

This letter is intended solely for the information and use of the City Council, management, and others within the City and is not intended to be and should not be used by anyone other than these specified parties. We appreciate serving the City of Paynesville and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota