

CITY OF PEQUOT LAKES, MINNESOTA

**REPORT TO THE MEMBERS
OF GOVERNANCE**

MAY 28, 2019

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

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May 28, 2019

Members of Governance
City of Pequot Lakes, Minnesota

We are pleased to present this report related to our audit of the basic financial statements of the City of Pequot Lakes, Minnesota (the City) as of and for the year ended December 31, 2018. 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 management 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 Pequot Lakes.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

Generally accepted auditing standards (AU-C 260, *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.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated October 5, 2017. 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 dated January 22, 2019 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 Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, 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.

Effective for the year ended December 31, 2018, the City has adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect of the implementation modifies the City's presentation of the net OPEB liability and related balances on the Statements of Net Position, and results in additional footnote disclosures and schedules of required supplementary information.

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 estimates we have deemed significant to the financial statements are the estimates associated with the following balances reported at year-end:

- Net pension liability/asset and related deferred inflows/outflows of resources
- Net OPEB liability and related deferred inflows/outflows of resources

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.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Audit adjustments proposed by us and recorded by the City are related to the adjustment, reclassification or recording of receivables, payables, accrued expenses, fixed assets, enterprise debt, pension activity, and OPEB activity.

Departure From the Auditor's Standard Report

Our Independent Auditors' Report includes several additional or non-standard paragraphs that you should be aware of as follows:

- Emphasis of Matters related to the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- Other Matters related to Required Supplementary Information and Supplementary Information
- Other Reporting Required by *Government Auditing Standards*
- Report on Other Legal and Regulatory Requirements

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the City's audited financial statements is to read the information and consider whether its content or manner of its presentation is materially inconsistent with the financial information covered by our auditor's report or whether it contains a material misstatement of fact. We read the Council's Management Discussion and Analysis and did not identify material inconsistencies with the audited financial statements.

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.

Significant Issues Discussed with Management

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

Significant Difficulties Encountered in Performing the Audit

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

Letter Communicating Deficiencies in Internal Control Over Financial Reporting

We have separately communicated the material weakness and significant deficiency in internal control over financial reporting 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, 2018.

Significant Written Communications Between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated May 28, 2019.