

Honorable Mayor and
Members of the City Council
City of Menahga
Menahga, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Menahga (City) as of and for the year ended December 31, 2015, and have issued our report thereon dated May 24, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Menahga are described in Note 1 to the financial statements.

For the year ended December 31, 2015, the financial statements include the impact of Governmental Accounting Standards Board Statement (GASBS) Number 68 and 71.

GASBS 68, *Accounting and Reporting for Pensions*, changed accounting principles related to the accounting for pension liabilities. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of net position as of and for the year ended December 31, 2015. Further information on the restatement of net position can be found in Note 7 of the financial statements. Additional information on reporting of the pension liability can be found in Note 4 of the financial statements.

GASBS 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASBS 68*, addresses the reporting of deferred inflows and deferred outflows of resources associated with contributions made after the measurement date of the government's beginning net position liability.

We noted no transactions entered into by the City 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

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 estimates affecting the financial statements were:

Qualitative aspects of accounting practices (continued)

Accounting estimates (Continued)

- Management's estimate of the useful lives of depreciable assets is based on guidance issued by the Minnesota Office of the State Auditor and historical practice. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of special assessments receivable is based on balances certified to the county less estimated principal collections. We evaluated the key factors and assumptions used to develop special assessments receivable in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of accrued compensated absences is based on earned vacation, sick leave, and comp time. The current portion of the estimate is based on City policy and historical trends.
- Management's estimate of the City's proportionate share of the PERA's GERF, PEPFF, and Menahga's Fire Relief's net pension assets/liabilities, as well as the related deferred inflows and outflows, is based on guidance from GASB Statement No. 68, GASB Statement No. 71, and the plans' allocation tables. The plans' allocation tables allocate a portion of the plans' net pension liabilities based on the City's contributions during the plan's fiscal years as a percentage of total contributions received for the related fiscal year by the plans. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements take as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

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.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following summarizes uncorrected misstatements of the financial statements:

- Assets and net position are understated by \$3,883 in the Sewer fund and the business-type activities due to not recording a refunding loss related to the refunding of bonds in the current year. This also caused expenses to be overstated by \$3,328.

Corrected misstatements

The following material and immaterial misstatements detected as a result of audit procedures were corrected by management:

- Record retainage payable, reclassify taxes receivable to actual, reduce lease receivable, record accrued interest payable, adjust unavailable revenue to actual, adjust transfers to actual, change in compensated absences, record additional accounts receivable, adjust prepaid items to actual, and record capital asset additions and depreciation.

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 auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated May 24, 2016.

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 City's financial statements or a determination of the type of auditors' 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.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Significant findings or issues that were discussed, or the subject of correspondence, with management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. The following summarizes the significant findings or issues arising from the audit that were discussed, or the subject of correspondence, with management:

- Auditor prepares the financial statements
- Lack of segregation of duties
- Material audit adjustments

Audits of group financial statements

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

Limitations on the group audit

There were no restrictions on our access to information of components or other limitations on the group audit.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Other information in documents containing audited financial statements (continued)

With respect to the combining nonmajor fund financial statements, the debt service fund by bond issue financial statements, and the capital projects fund by capital project financial statements (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, 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 have issued our report thereon dated May 24, 2016.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

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This communication is intended solely for the information and use of the Mayor, City Council Members, and management of City of Menahga and is not intended to be, and should not be, used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Brainerd, Minnesota
May 24, 2016