

**CITY OF CANTON
MINNESOTA**

**INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THOSE
CHARGED WITH GOVERNANCE AND
ON INTERNAL CONTROL
DECEMBER 31, 2021**

CITY OF CANTON, MINNESOTA

TABLE OF CONTENTS

DECEMBER 31, 2021

Page

2-4	Independent Auditors' Report on Communications With Those Charged With Governance
5-7	Independent Auditors' Report on Internal Control
Appendix A	Adjusting Journal Entries
Appendix B	Management Representation Letter



**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

To the City Council
City of Canton, Minnesota

We have audited the regulatory financial statements of the City of Canton, Minnesota (the "City") for the year ended December 31, 2021, and have issued our report thereon dated March 23, 2022. Professional standards also require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated December 20, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with practices prescribed or permitted by the State of Minnesota Office of the State Auditor. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material weaknesses, and material noncompliance noted during our audit in a separate letter to you dated March 23, 2022.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance With All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks:

- *Improper Revenue Recognition* - Professional standards require the auditor to presume that risks of fraud exist in revenue recognition.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

There are no material estimates included in the financial statements.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to the defined benefit pension plan.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We have not identified any significant unusual transactions during the audit.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements listed on under Appendix A that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested From Management

We have requested certain written representations from management which are included in the attached management representation letter listed under Appendix B dated March 23, 2022.

Management Consultations With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

This report is intended solely for the information and use of the City Council, and management of City of Canton, Minnesota, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

La Crosse, Wisconsin
March 23, 2022



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

To the City Council
City of Canton, Minnesota

In planning and performing our audit of the regulatory financial statements of City of Canton, Minnesota (the "City"), as of and for the year ended December 31, 2021, in accordance with practices prescribed or permitted by the State of Minnesota Office of the State Auditor, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 discussed below, we identified a deficiencies in internal control that we consider to be material weaknesses.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the following deficiencies in the City's internal control to be material weaknesses:

2021-001 - Management's Responsibility for Preparation of Financial Statements

Program: City-wide

Criteria: Adequate internal controls necessitate personnel to have knowledge and training which would enable them to prepare financial statements (and footnotes) in accordance with the financial reporting provisions of the State of Minnesota's Office of the State Auditor.

Condition: The training and knowledge of your personnel limits your ability to prepare regulatory basis financial statements.

Questioned Costs: Not applicable.

2021-001 - Management's Responsibility for Preparation of Financial Statements - Continued

Context: Personnel have adequate knowledge and experience in governmental accounting and interim reporting requirements; however, their limited knowledge and lack of training limits their ability to prepare regulatory basis financial statements.

Effect: This weakness could result in the possibility of undetected errors and irregularities.

Information: Systematic problem.

Prior Year Finding: This was prior year finding 2020-001.

Recommendation: Obtain adequate training or hire a certified public accountant (CPA) to prepare regulatory basis financial statements.

City's Response: Due to the complexities involved with preparing regulatory basis financial statements, management has weighed the cost-benefit of training personnel or hiring a CPA firm. Management has concluded to hire a CPA firm.

2021-002 - Segregation of Duties

Program: City-wide

Criteria: Separation of accounting duties is necessary for adequate internal control.

Condition: Separation of accounting duties for adjusting journal entries, cash receipts, cash disbursements, and payroll is currently limited to obtain an adequate internal control system.

Questioned Costs: Not applicable.

Context: The number of personnel limits the separation of accounting duties.

Effect: This weakness could result in the possibility of undetected errors and irregularities.

Information: Systematic problem.

Prior Year Finding: This was prior year finding 2020-002.

Recommendation: Management should monitor the accounting internal controls or hire additional personnel to be able to properly separate accounting duties.

City's Response: This weakness is impractical to entirely correct due to the limited resources and personnel available to our City. We will continue to use other controls, where practical, to compensate for this limitation.

2021-003 - Material Audit Adjustments

Program: City-wide

Criteria: Generally accepted accounting principles.

Condition: Material audit adjustments were required to prevent the City's financial statements from being materially misstated.

Questioned Costs: Not applicable.

Context: Internal controls did not identify that adjustments should be recorded.

Effect: This weakness could result in undetected errors and irregularities and misstated interim financial reports.

Information: Systematic problem.

Prior Year Finding: This was prior year finding 2020-004.

Recommendation: Improve the City's financial reporting internal controls to prevent these types of adjustments from occurring in the future. Document which accounting procedures are needed to be completed on a recurring basis to detect material adjustments.

Management's Response: The City will incorporate financial reporting internal controls to detect material adjustments, prevent materially misstated financial statements and increase the accuracy of the interim financial reports used by management.

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

La Crosse, Wisconsin
March 23, 2022

CITY OF CANTON, MINNESOTA

APPENDIX A
ADJUSTING JOURNAL ENTRIES

CITY OF CANTON, MINNESOTA
ADJUSTING JOURNAL ENTRIES
DECEMBER 31, 2021

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<u>Adjusting Journal Entry #1</u>			
To clear liability accounts for cash basis accounting.			
601-22510	General Obligation Bond	17,000	
602-10412	Sewer Refinancing	346,500	
601-25300	Unreserved Fund Balance		17,000
602-25300	Unreserved Fund Balance		346,500
	TOTAL	363,500	363,500

Adjusting Journal Entry #2

To record cash disbursement for repayment of 2005 bond.

602-49450-604	GO Sewer Revenue Refund Note	346,500	
602-25300	Unreserved Fund Balance		346,500
	TOTAL	346,500	346,500

CITY OF CANTON, MINNESOTA

APPENDIX B
MANAGEMENT REPRESENTATION LETTER