

**CITY OF CANTON,  
MINNESOTA**

**INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATION WITH THOSE  
CHARGED WITH GOVERNANCE AND  
ON INTERNAL CONTROL**

**DECEMBER 31, 2022**

# **CITY OF CANTON, MINNESOTA**

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## **INDEPENDENT AUDITORS' REPORT ON COMMUNICATION 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, 2022, and have issued our report thereon dated March 7, 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 13, 2022, 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 7, 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:

- *Management Override of Controls* - Professional standards require the auditor to address the risk that management is in a unique position to override controls that otherwise appear to be operating effectively.
- *Improper Revenue Recognition* - Professional standards require the auditor to presume that risks of material misstatements exist in revenue recognition.

We have designed our audit procedures to adequately address the significant risks identified.

## **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 2022. 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 7, 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.

*Hawkins Ash CPAs, LLP*

La Crosse, Wisconsin  
March 7, 2023



## 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, 2022, 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 certain 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:

### **2022-001 - 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.

## **2022-001 - 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 2021-001.

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.

## **2022-002 - 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 2021-002.

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.

## **2022-003 - 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 2021-003.

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.

*Hawkins Ash CPAs, LLP*

La Crosse, Wisconsin  
March 7, 2023

**CITY OF CANTON, MINNESOTA**

**APPENDIX A**  
**ADJUSTING JOURNAL ENTRIES**

**CITY OF CANTON, MINNESOTA**  
**ADJUSTING JOURNAL ENTRIES**  
**DECEMBER 31, 2022**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b><u>Adjusting Journal Entry #1</u></b>			
To record entry from prior year that was marked audit only that should have been posted and eliminate current year accrued liabilities.			
101-21702	State Withholding	1,141	
101-21703	FICA Tax Withholding	3,151	
101-21704	PERA	1,773	
101-41000-430	Miscellaneous (General)	3,142	
101-20000	Sales Tax Payable		59
101-21701	Federal Withholding		3,035
101-25300	Unreserved Fund Balance		5,810
101-41000-121	PERA		303
	<b>Total</b>	<b>9,207</b>	<b>9,207</b>

**Adjusting Journal Entry #2**

To adjust water fund equity to correct beginning balance.

601-10413	Water Note	57,000	
601-25300	Unreserved Fund Balance		57,000
	<b>Total</b>	<b>57,000</b>	<b>57,000</b>

**Adjusting Journal Entry #3**

To correct entry to move ARPA funds to water/sewer.

101-20702	Due to Water Fund	18,797	
101-20703	Due to Sewer Fund	18,797	
601-10100	Cash	9,398	
602-10100	Cash	9,399	
101-10100	Cash		18,797
101-41000-33100	Federal Grants and Aids		18,797
601-39201	Transfer in - General		9,398
602-39201	Transfer In - General		9,399
	<b>Total</b>	<b>56,391</b>	<b>56,391</b>

**Adjusting Journal Entry #4**

To move market value credit to correct account.

101-10100	Cash	496	
601-41000-33100	Federal Grants and Aids	248	
602-41000-33100	Federal Grants and Aids	248	
101-41000-33000	Intergovernmental Revenues		496
601-10100	Cash		248
602-10100	Cash		248
	<b>Total</b>	<b>992</b>	<b>992</b>

**Adjusting Journal Entry #5**

To move water debt payment paid by general to correct fund.

101-10100	Cash	14,000	
601-41000-601	Debt Service Bond Principal	14,000	
101-41000-601	Debt Service Bond Principal		14,000
601-10100	Cash		14,000
	<b>Total</b>	<b>28,000</b>	<b>28,000</b>

**CITY OF CANTON, MINNESOTA**

**APPENDIX B**  
**MANAGEMENT REPRESENTATION LETTER**



City of Canton  
106 North Main Street • PO Box 92  
Canton, Minnesota 55922  
507.743.5000  
cantonmn.com

Mayor  
Josh Nordsving  
City Council  
Jennifer Dowling  
Randy Gossman  
Jason Magnuson  
Kristy Ziegler

March 7, 2023

Hawkins Ash CPAs, LLP  
500 South Second Street, Suite 200  
La Crosse, WI 54601

This representation letter is provided in connection with your audit of the financial statements of the City of Canton, Minnesota (the "City") as of December 31, 2022, and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position and results of operations of the various opinion units of City of Canton in accordance with the financial reporting provisions of the State of Minnesota's Office of the State Auditor.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of March 7, 2023.

#### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 13, 2022, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with the financial reporting provisions of the State of Minnesota's Office of the State Auditor.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
5. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
6. We have a process to track the status of audit findings and recommendations.
7. We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
8. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



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9. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the financial reporting provisions of the State of Minnesota's Office of the State Auditor.
10. All events subsequent to the date of the financial statements and for which the financial reporting provisions of the State of Minnesota's Office of the State Auditor requires adjustment or disclosure have been adjusted or disclosed.
11. We have recorded all audit adjustments including those that are immaterial.
12. We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with GASB Statement No. 62 (GASB-62), Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (FASB Accounting Standards Codification (ASC) 450, Contingencies), and we have not consulted a lawyer concerning litigation, claims, or assessments.
13. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
14. All funds and activities are properly classified.
15. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
16. All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
17. Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
18. All interfund and intra-entity transactions and balances have been properly classified and reported.
19. Deposit and investment risks have been properly and fully disclosed.
20. All required supplementary information is measured and presented within the prescribed guidelines.
21. With respect to nonattest services including preparation of financial statements and preparation of the State of Minnesota Financial Report we have performed the following:
  - Made all management decisions and performed all management functions;
  - Assigned a competent individual to oversee the services;
  - Evaluated the adequacy of the services performed;





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- Evaluated and accepted responsibility for the result of the service performed; and
- Established and maintained internal controls, including monitoring ongoing activities.

#### Information Provided

22. We have provided you with:

- Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.

23. All transactions have been recorded in the accounting records and are reflected in the financial statements.

24. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

25. We have provided to you our analysis of the City's ability to continue as a going concern, including significant conditions and events present, and if necessary, our analysis of management's plans, and our ability to achieve those plans.

26. We have no knowledge of any fraud or suspected fraud that affects the City and involves:

- Management;
- Employees who have significant roles in internal control; or
- Others where the fraud could have a material effect on the financial statements.

27. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the City's financial statements communicated by employees, former employees, vendors, regulators, or others.

28. We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation, claims, or assessments.

29. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

30. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.

31. The City has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

32. We have disclosed to you all guarantees, whether written or oral, under which the City is contingently liable.

33. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62



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(GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

34. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
35. There are no:
- Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
  - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
36. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
37. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Signed: Anne Kohha  
Title: City Clerk

Signed: [Signature]  
Title: Mayor