



September 12, 2019

City of Blaine  
10801 Town Square Drive  
Blaine, MN 55449-8101

We are pleased to confirm our understanding of the services we are to provide the City of Blaine, Minnesota for the years ending December 31, 2019 and 2020. The scope of services includes the following:

- We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements of the City of Blaine, Minnesota as of and for the years ending December 31, 2019 and 2020. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the City of Blaine, Minnesota's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the City of Blaine, Minnesota's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by U.S. generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:
  - Management's Discussion and Analysis
  - Schedules of Proportionate Share of Net Pension Liability
  - Schedules of Pensions Contributions

- We have also been engaged to report on supplementary information other than RSI that accompanies the City of Blaine, Minnesota's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole in a report combined with our auditor's report on the financial statements:
  - Combining and individual fund statements and schedules

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information:

- Introductory section
- Statistical section
- State of Minnesota Legal Compliance Audit
- Preparation assistance, copying and binding of the Comprehensive Annual Financial Report. City provides electronic version of trial balance and directly supervises Redpath and Company staff in assigning each account balance on the financial statements. City to provide content of the MD&A, Introductory Section, Footnotes and Statistical Section.
- Workpaper assistance – GASB 68 (pensions)

### **Audit Objectives**

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of American and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the minimum procedures for auditors as prescribed by M.S. 6.65 and will include tests of the accounting records of the City of Blaine, Minnesota and other procedures we consider

necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of the City of Blaine, Minnesota's financial statements. Our report will be addressed to the Honorable Mayor and Members of the City Council of the City of Blaine, Minnesota. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that the City of Blaine, Minnesota is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

#### **Audit Procedures – General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors and financial institutions. We may request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; compliance with laws, regulations, contracts, and grant agreements, and other responsibilities required by generally accepted auditing standards.

#### **Audit Procedures – Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

### **Audit Procedures – Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City of Blaine, Minnesota's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Minnesota Legal Compliance Audit Guide for Local Government requires that we test whether the auditee has complied with certain provisions of Minnesota Statutes. Our audit will include such tests of the accounting records and other procedures as we consider necessary in the circumstances.

### **Other Services**

We will also assist in preparing the financial statements and related notes of the City of Blaine, Minnesota in conformity with U.S. generally accepted accounting principles based on information provided by you. This assistance is limited to assigning accounts in Redpath and Company software based in City direction, enter journal entries into the software as provided by the City. We will also assist with the GASB 68 (pension) workpapers based on information provided by you and by PERA. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing standards*. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement services and GASB 68 workpaper assistance previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

### **Management Responsibilities**

Management is responsible for designing, implementing, establishing, and maintaining effective internal controls, relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements and all accompanying information in conformity with U.S. generally accepted accounting principles, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that we report.

You are also responsible for the preparation of the supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our reports thereon. Your responsibilities include acknowledging to us in the written representation letter that (a) you are responsible for presentation of the supplementary information in accordance with GAAP; (b) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (c) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reason for the changes); and (d) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit

Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

You agree to assume all management responsibilities relating to the financial statements and related notes and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and related notes and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them and for any other nonaudit service we provide. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

#### **Engagement Administration, Fees and Other**

We may from time to time and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

We will provide copies of our reports to the City of Blaine, Minnesota; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Redpath and Company, Ltd. and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Redpath and Company, Ltd. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by a federal agency providing direct or indirect funding. If we are aware that a federal awarding agency, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

The AICPA Code of Professional Conduct requires Redpath to maintain our independence with regard to certain attestation services provided to the City. These rules require the City to take responsibility for all nonattest services. Redpath cannot serve as custodian for your data in such a way that your data is incomplete and accessible only through Redpath or the Redpath portal. As such, any financial report, reconciliation, document, and/or calculation (depreciation schedules, etc.) that we prepare or update on your behalf will be sent to you at the completion of each attest or nonattest service. You are responsible for downloading from the Redpath portal and maintaining these records as well as all supporting documents generated in the normal course of business until the retention period expires.

We expect to begin our audit on a mutually agreed upon date and to issue our reports no later than June 30, 2020. Andy Hering, CPA is the engagement Director and is responsible for supervising the engagement and signing the report.

Unless additional work is requested, or circumstances require additional work, we agree that our fee for the audit services, assistance with the preparation of the Comprehensive Annual Financial Report and assistance with GASB 68 (pension) workpapers, including expenses (such as report reproduction, postage, etc.) will be as follows:

Services	2019	2020	Total
City audit <sup>(1)</sup>	\$47,500	\$49,500	\$97,000
CAFR preparation assistance <sup>(2)</sup>	3,450	3,550	7,000
Workpaper assistance - GASB 68 (Pension)	1,100	1,125	2,225
Quarterly Task List meetings	no charge	no charge	-
Routine phone calls	no charge	no charge	-
Total all inclusive maximum price	<u>\$52,050</u>	<u>\$54,175</u>	<u>\$106,225</u>

<sup>(1)</sup>Assumes no significant changes in accounting and auditing standards.

<sup>(2)</sup>City utilizes Redpath and Company Engagement software with Redpath staff assistance.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 120 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on the anticipated scope of service, anticipated cooperation from your personnel, accurate and timely completion of workpapers per the client to prepare listing by your personnel, and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary due to a change in scopes of services or delays in receiving audit information requests, we will discuss it with you and arrive at a new fee estimate.

The City acknowledges that the following circumstances may result in an increase in fees:

- New accounting standards
- Failure by the City to complete the preparation work by the applicable due dates.
- Inaccurate records,
- Turnover in your staff.
- Significant unanticipated or undisclosed transactions, issues or other such unforeseeable circumstances.

- Delays by the City causing scheduling changes or disruptions of previously schedule timing of work (fieldwork).
- Circumstances requiring revisions to work previously completed or delays in resolution of issues that extend the period of time necessary to complete the audit.
- Significant change in the level of activity/number of transactions.
- There is an indication of misappropriations or misuse of public funds.

We appreciate the opportunity to be of service to the City of Blaine, Minnesota and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

REDPATH AND COMPANY, LTD.



Peggy A. Moeller, CPA

PAM/ajf

**Response**

This letter correctly sets forth the understanding of the City of Blaine:

Management signature:

Governance signature:

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**PLEASE  
&**

**Nonaudit Services**

The employee(s) assigned to oversee the nonaudit services is as follows:

☐ Employee (name or title) \_\_\_\_\_