CITY OF BECKER
BECKER, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2012

ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

CITY OF BECKER
BECKER, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2012

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants
5201 Eden Avenue
Suite 250
Edina, MN 55436

April 17, 2013

Management, Honorable Mayor and City Council
City of Becker, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Becker, Minnesota (the City), for the year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Audit Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated November 16, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control over financial reporting of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are 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 specifically to identify such matters.

Significant Audit Findings

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed on the following page, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 combination of deficiencies, in internal control 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies presented as findings 2012-1 and 2012-2 on the following pages to be significant deficiencies in internal controls over financial reporting.

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2012-1 Preparation of financial statements

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

Management response:

For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

2012-2 Limited segregation of duties

Condition: During our audit we reviewed procedures over cash receipts, cash disbursements, payroll, utility billing, financial reporting, and capital assets and found the City to have limited segregation of duties over those transaction cycles.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Cause: As a result of the limited number of staff, in the disbursement cycle, the Finance Director has access to checks, ability to posts to the general ledger, and prepares bank reconciliations. In the receipts cycle, the Finance Director maintains accounts receivable invoices, posts to the general ledger, prepares deposits and brings to the bank, and reconciles the bank statement. In the payroll cycle, the Accounting Clerk has control over the checks, sets up employee records, posts to the general ledger. In the utility billing cycle, the City Council approves rates but the Utility Billing Clerk, does all other duties. In the financial reporting and capital asset transaction cycles, the Finance Director performs all of the duties.

Effect: The existence of this limited segregation of duties increases the risk of fraud.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that the City evaluate the current procedures and segregate duties where possible and implement any compensating controls. We are aware some compensating controls are in place; however, it is important that the City Council is aware of this condition and monitor all financial information.

Management response:

Management recognizes that it is not economically feasible to correct this finding, however is aware of the deficiency and is relying on oversight by management and the City Council to monitor this deficiency.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or statutes set forth by the State of Minnesota.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The requirements of GASB statements No. 63 and 65 were adopted for the year ended December 31, 2012. 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 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 capital asset basis, depreciation, compensated absences, and allocation of payroll.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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. Management has corrected all such misstatements.

We also assisted in preparing a number of year end accounting entries. These were necessary to adjust the City's records at year end to correct ending balances.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representations letter April 17, 2013.

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 auditor's 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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention 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 retention.

Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended December 31, 2012.

General Fund

The General fund is used to account for resources traditionally associated with government, which are not required legally or by sound principal management to be accounted for in another fund. The General fund balance increased $385,527 from 2011. The fund balance of $1,573,261 is 66 percent of current year expenditures. We recommend the fund balance be maintained at a level sufficient to fund operations until the major revenue sources are received in June. We feel a reserve of approximately 40 to 50 percent of planned expenditures and transfers out is adequate to meet working capital and small emergency needs.

The purposes and benefits of a fund balance are as follows:

- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.

- The City is vulnerable to legislative actions at the State and Federal level. Levy limits have also been implemented for municipalities in past legislative sessions. An adequate fund balance will provide a temporary buffer against those aid adjustments and levy limits.

- Expenditures not anticipated at the time the annual budget was adopted may need immediate City Council action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.

- A strong fund balance will assist the City in maintaining, improving or obtaining its bond rating. The result will be better interest rates in future bond sales.

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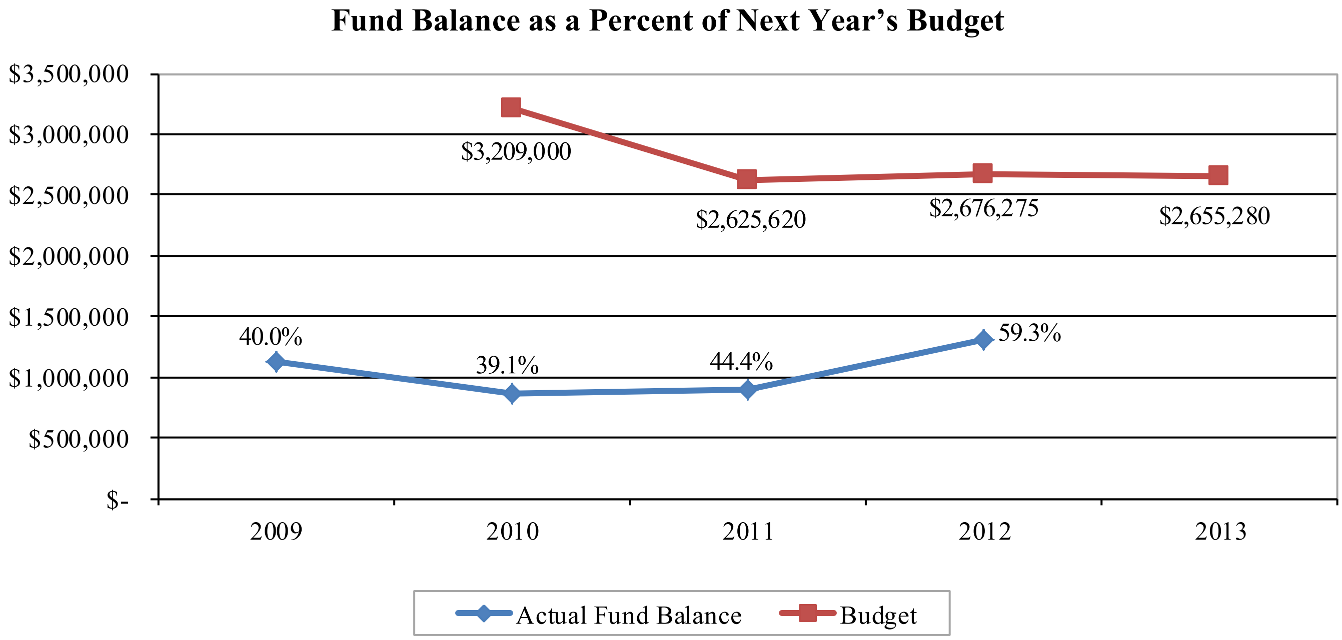
The prior four years of fund balance relative to budget are presented below.

Year	Unassigned Fund Balance December 31	Total Fund Balance December 31	Budget Year	General Fund Budget	Percent of Unassigned Fund Balance to Budget	Percent of Total Fund Balance to Budget
2009	$ 1,124,988	$ 1,283,261	2010	$ 3,209,000	35.1 %	40.0 %
2010	869,026	1,027,372	2011	2,625,620	33.1	39.1
2011	898,543	1,187,734	2012	2,676,275	33.6	44.4
2012	1,302,174	1,573,261	2013	2,655,280	49.0	59.3



We have compiled peer group average fund balance information from the 4th class cities (population 2,500 to 10,000) we audit along with information obtained from the Office of the State Auditor. In 2010 and 2011, the average General fund balance as a percentage of expenditures was 67 percent and 69 percent, respectively. Based on comparison to the peer groups, the City's General fund balance is lower than average.

A summary of the 2012 operations are as follows:

	Final Budget Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 2,570,875	$ 2,765,529	$ 194,654
Expenditures	2,676,275	2,224,852	451,423
Excess (deficiency) of revenues over (under) expenditures	(105,400)	540,677	646,077
Other financing sources (uses)			
Transfers in	105,400	4,750	(100,650)
Transfers out	-	(159,900)	(159,900)
Total other financing sources (uses)	105,400	(155,150)	(260,550)
Net change in fund balances	-	385,527	385,527
Fund balances, January 1	1,187,734	1,187,734	-
Fund balances, December 31	$ 1,187,734	$ 1,573,261	$ 385,527

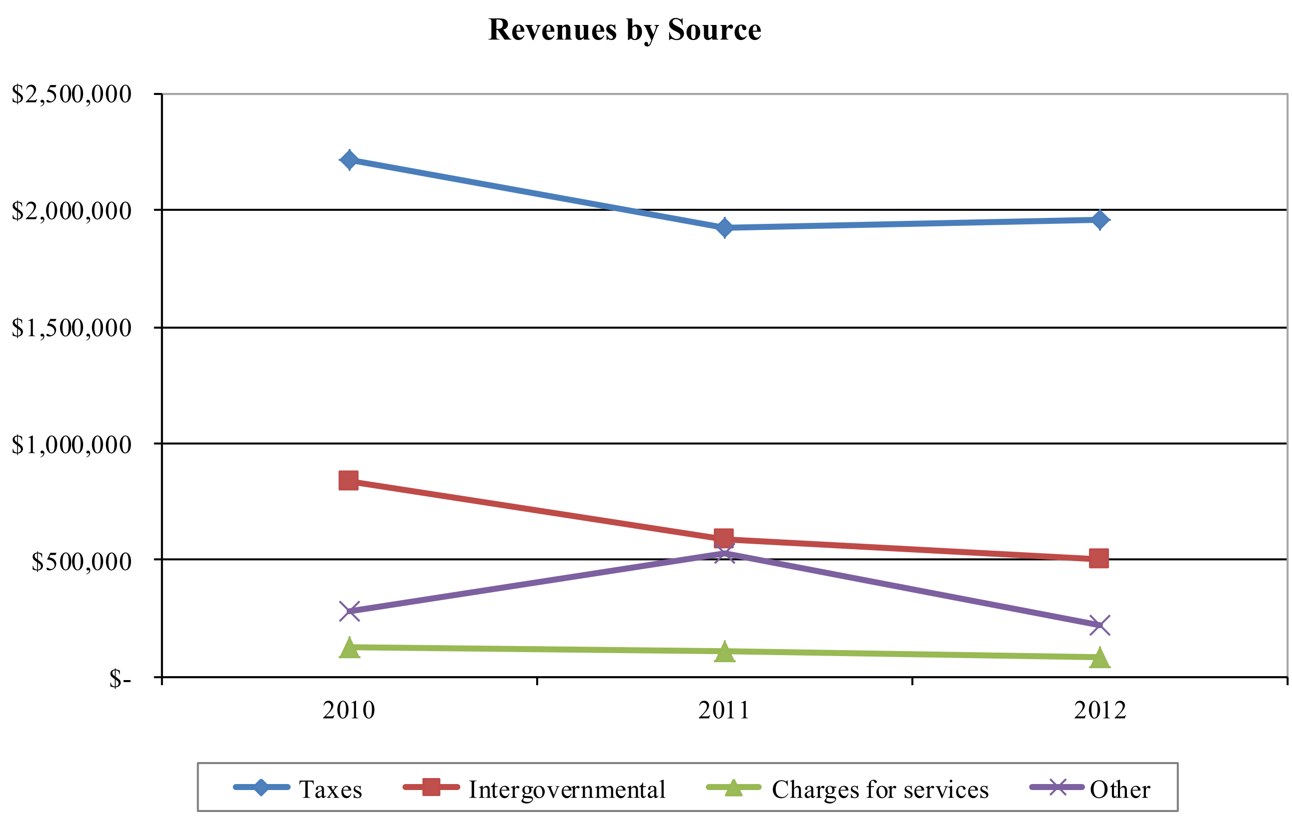
The total expenditures were under budget by $451,423. The most significant positive expenditure variance was in capital outlay which was under budget by $258,557 due to less than expected capital activity in the fund. The only function with a negative expenditure variance was in culture and recreation of $12,909.

The total revenues were over budget by $194,654. This can be attributed to special assessments and licenses and permits being over budget by $54,070 and $37,470, respectively.

A summary and comparison of 2012, 2011, and 2010 General fund revenues and transfers in are as follows:

Revenue Source	2010	2011	2012	Percent of Total	Per Capita
Taxes	$ 2,217,888	$ 1,921,680	$ 1,956,182	70.6 %	$ 427
Licenses and permits	51,199	50,353	80,570	2.9	18
Intergovernmental	837,366	585,140	505,282	18.2	110
Charges for services	129,426	113,779	85,979	3.1	19
Fines and forfeitures	11,235	15,013	8,312	0.3	2
Special assessments	57,748	73,044	54,070	2.0	12
Interest on investments	13,485	6,229	10,932	0.4	2
Miscellaneous	44,555	56,807	64,202	2.3	14
Transfers in	102,212	324,467	4,750	0.2	1
Total revenues and transfers	$ 3,465,114	$ 3,146,512	$ 2,770,279	100.0 %	$ 605

The sources of 2012, 2011, and 2010 revenues and transfers are presented graphically as follows:

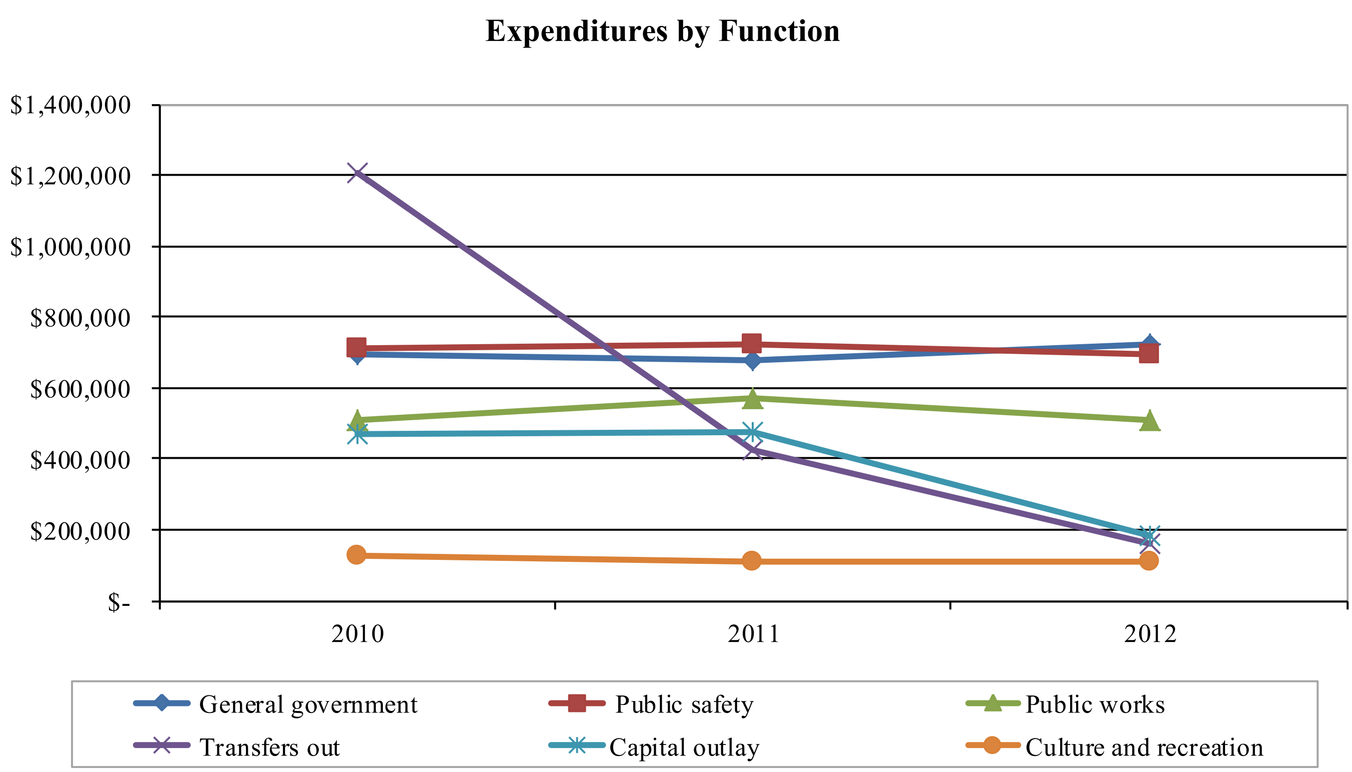


A summary and comparison of 2012, 2011, and 2010 General fund expenditures and transfers out are as follows:

Program	2010	2011	2012	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	$ 697,104	$ 680,997	$ 725,853	30.4 %	$ 158	$ 125
Public safety	711,172	722,525	695,942	29.2	152	222
Public works	506,768	571,090	508,405	21.3	111	112
Culture and recreation	124,842	111,386	112,909	4.7	25	56
Total current	2,039,886	2,085,998	2,043,109	85.6	446	515
Capital outlay	471,570	474,964	181,743	7.6	40	26
Transfers out	1,209,547	425,188	159,900	6.8	35	-
Total expenditures and transfers	$ 3,721,003	$ 2,986,150	$ 2,384,752	100.0 %	$ 521	$ 541

The above chart compares the amount the City spends per capita, in comparison to a peer group. The peer group average is compiled from information from approximately 120 fourth class cities (populations 2,500-10,000) across the State.

The 2012, 2011 and 2010 expenditures and transfers are presented graphically as follows:



Special Revenue Funds

Special revenue funds are a classification of funds to account for revenues and related expenditures segregated by City policy (committed) or federal or state statutes (restricted) for specific purposes. The fund balances of the special revenue funds were as follows at December 31, 2012 and 2011:

Fund	Fund Balances December 31, 2012	Fund Balances December 31, 2011	Increase (Decrease)
Nonmajor			
Fire Department	$ 919,968	$ 1,278,124	$ (358,156)
Economic Development	228,283	197,538	30,745
Community Center	(86,114)	(98,497)	12,383
Total	$ 1,062,137	$ 1,377,165	$ (315,028)

All funds should have sufficient resources to provide for their operations but occasionally deficits will occur. The Community Center fund balance includes an increase of $12,383 from 2011, but remains in a deficit. It is recommended that the City review its financing plans to ensure that future revenue will be sufficient to eliminate this deficit. The Fire fund decrease can be attributed to a transfer out of $500,000.

Debt Service Funds

Debt Service funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt (other than enterprise fund debt).

Debt Service funds may have one or a combination of the following revenue sources pledged to retire debt as follows:

- Property taxes - Primarily for general City benefit projects such as streets and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.

- Capitalized interest portion of bond proceeds - After the sale of bonds, the project may not produce revenue (tax increments or special assessments) for a period of one to two years. Bonds are issued with this timing difference considered in the form of capitalized interest.

- Special assessments - Charges to benefited properties for various improvements.

In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- Residual project proceeds from the related capital projects fund
- Investment earnings
- State or Federal grants
- Transfers from other funds

The following is a recap of the various debt service fund assets and the related bond principal outstanding:

Debt Description	Cash Balance	Total Assets	Bonds Outstanding	Year of Maturity
G.O. Fire Station Refunding Bonds, Series 2011A	$ 165,007	$ 432,752	$ 1,335,000	02/01/19
G.O. Improvement Bonds, Series 2010A	109,664	1,495,151	1,860,000	02/01/26
Total G.O. Bonds	$ 274,671	$ 1,927,903	$ 3,195,000	

Capital Projects Funds

The capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by proprietary funds. The fund balances of capital projects funds were as follows at December 31, 2012 and 2011:

Fund	Fund Balances December 31, 2012	2011	Increase (Decrease)
Major			
Revolving Capital	$ 8,823,864	$ 8,911,133	$ (87,269)
Nonmajor			
Trunk Facilities	880,337	879,231	1,106
2011 Industrial Park Street and Utility Improvement	895,664	744,299	151,365
Fossum Fields Road Pedestrian Path	43,562	41,308	2,254
Total	$ 10,643,427	$ 10,575,971	$ 67,456

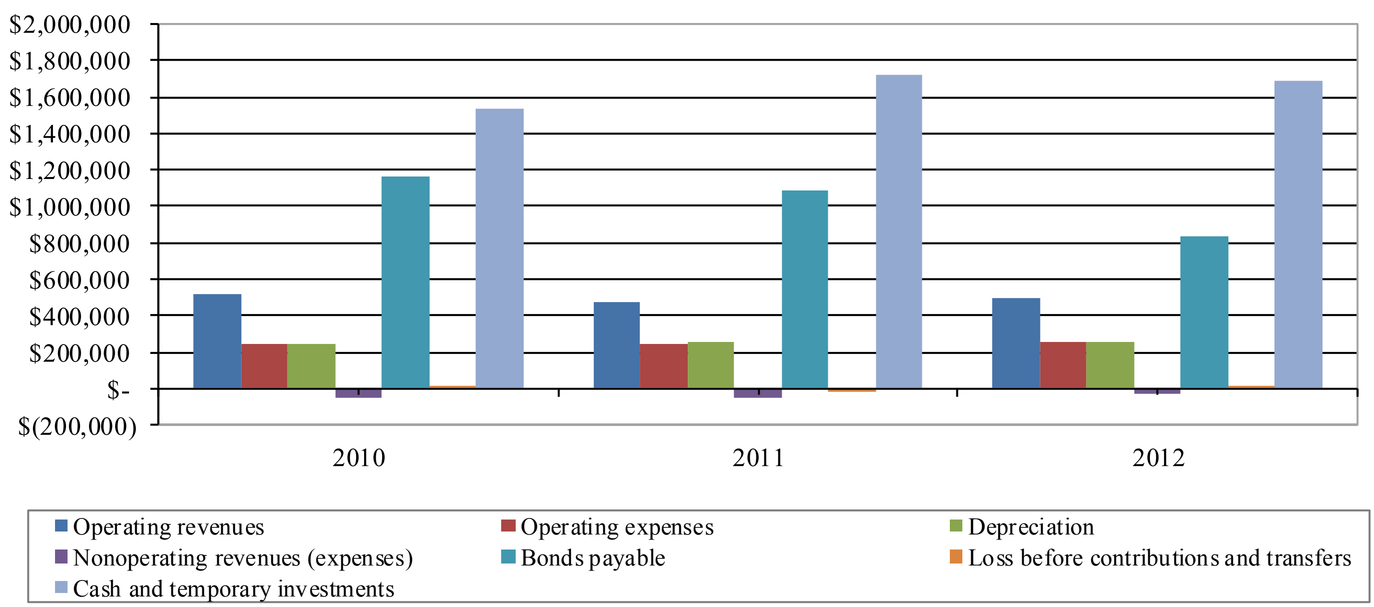
The City has done well monitoring the status of outstanding capital project funds, identifying financing to eliminate deficits and closing those that are complete. We recommend the City continue to evaluate the status of each fund annually.

Proprietary Funds

The results of the operations and cash position of the Water fund for the past three years are as follows:

Water Fund Operations

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 515,880	100.0 %	$ 474,719	100.0 %	$ 498,398	100.0 %
Operating expenses	(248,778)	(48.2)	(244,803)	(51.6)	(253,489)	(50.9)
Depreciation	(242,205)	(46.9)	(252,928)	(53.3)	(252,033)	(50.6)
Operating income (loss)	24,897	4.9	(23,012)	(4.9)	(7,124)	(1.5)
Nonoperating revenues (expenses)	1,162	0.2	13,273	2.8	(2,236)	(0.4)
Interest expense	(50,282)	(9.7)	(47,627)	(10.0)	(26,273)	(5.3)
Loss before contributions and transfers	(24,223)	(4.6)	(57,366)	(12.1)	(35,633)	(7.1)
Transfers in	40,000	7.8	40,000	8.4	40,000	8.0
Transfers out	(2,089)	(0.4)	-	-	-	-
Change in fund net position	$ 13,688	2.8 %	$ (17,366)	(3.7) %	$ 4,367	0.9 %
Cash and temporary investments						
Unrestricted	$ 1,191,586		$ 1,396,240		$ 1,583,997	
Restricted	$ 342,455		$ 325,026		$ 100,107	
Bonds payable	$ 1,165,000		$ 1,090,000		$ 840,000	

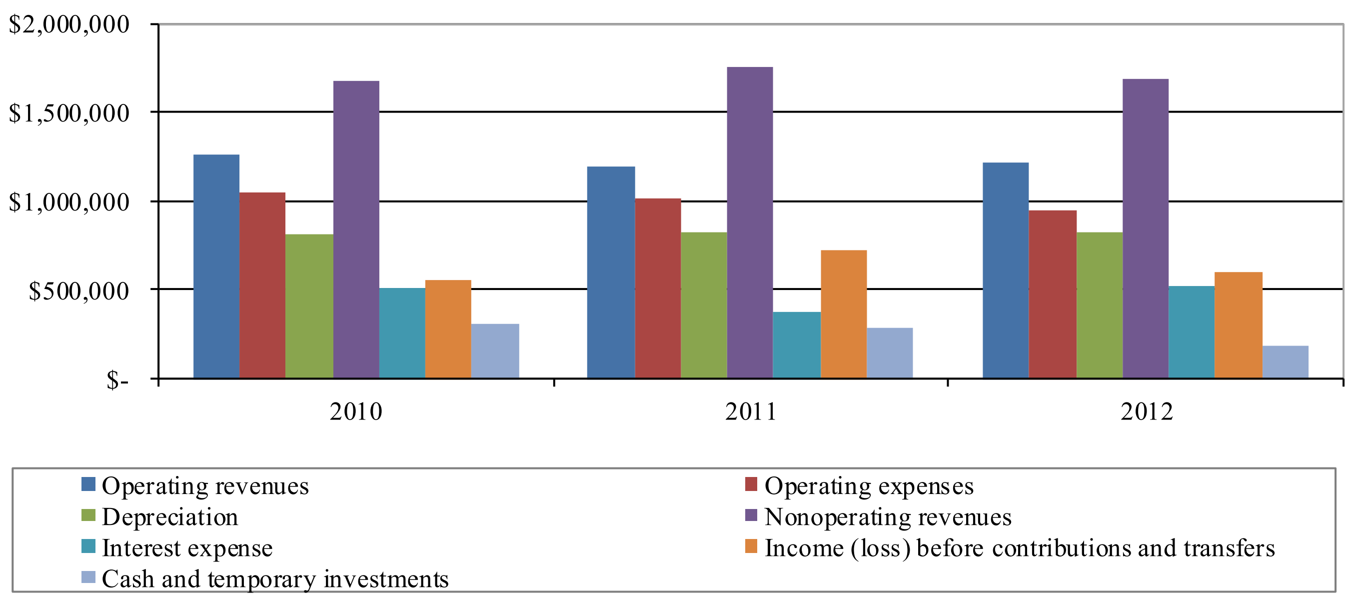


The cash balance is at a level sufficient to provide for working capital and other needs. The fund recorded an operating loss as operating expenses increased 4 percent from 2011. The cash balance remains strong in relation to operations; however, it is important to review cash flow each year to determine if rates are adequate to cover operations.

The operations of the Sewer fund for the past three years are summarized as follows:

Sewer Fund Operations

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 1,267,296	100.0 %	$ 1,191,733	100.0 %	$ 1,216,412	100.0 %
Operating expenses	(1,047,965)	(82.7)	(1,020,124)	(85.6)	(949,443)	(78.1)
Depreciation	(818,946)	(64.6)	(823,085)	(69.1)	(829,457)	(68.2)
Operating loss	(599,615)	(47.3)	(651,476)	(54.7)	(562,488)	(46.3)
Nonoperating revenues	1,673,798	132.1	1,754,882	147.3	1,691,618	139.1
Interest expense	(514,884)	(40.6)	(373,966)	(31.4)	(525,386)	(43.2)
Income before transfers	559,299	44.2	729,440	61.2	603,744	49.6
Transfer of capital assets	-	-	-	-	135,212	11.1
Transfers in	101,875	8.0	20,686	1.7	1,875	0.2
Transfers out	(208,475)	(16.5)	(229,602)	(19.3)	(322,979)	(26.6)
Change in fund net position	$ 452,699	35.7 %	$ 520,524	43.6 %	$ 417,852	34.3 %
Cash and temporary investments						
Unrestricted	$ 310,892		$ 290,021		$ 187,522	
Restricted	$ 3,780,417		$ 2,176,597		$ 7,216,493	
Bonds payable	$ 14,320,000		$ 11,360,000		$ 15,300,000	

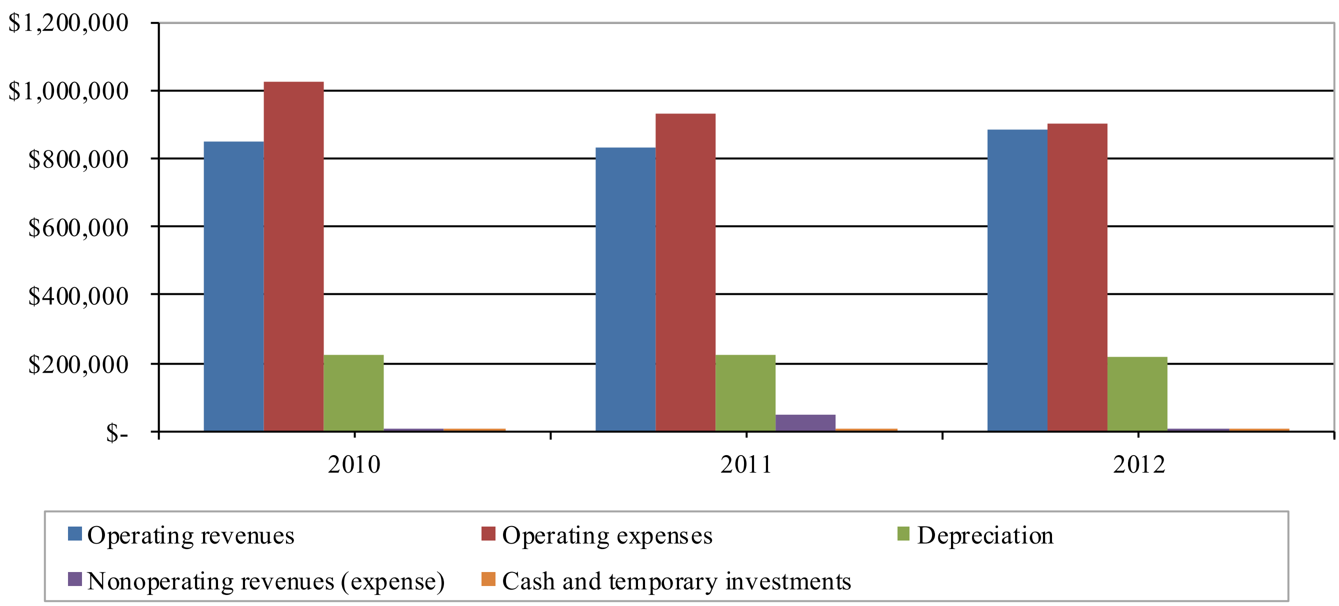


In 2012, the Sewer fund's net position balance increased $417,852. The increase in net position was due to nonoperating revenue of $1,691,618. The majority of nonoperating revenue is received from taxes. Although there has been three consecutive years of operating losses, the City has had adequate cash flow to support its needs in the past and is expected to remain sufficient.

The operations of the Golf Course fund for the past three years are summarized as follows:

Golf Course Operations

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 851,863	100.0 %	$ 829,939	100.0 %	$ 884,973	100.0 %
Operating expenses	(1,027,496)	(120.6)	(933,786)	(112.5)	(905,253)	(102.3)
Depreciation	(226,749)	(26.6)	(225,364)	(27.2)	(220,728)	(24.9)
Operating loss	(402,382)	(47.2)	(329,211)	(39.7)	(241,008)	(27.2)
Nonoperating revenues	17	-	48,507	6	8,025	0.9
Interest expense	(7,051)	(0.8)	(4,146)	(0.5)	(12,110)	(1.4)
Loss before transfers	(409,416)	(48.0)	(284,850)	(34.4)	(245,093)	(27.7)
Transfers in	222,903	26.2	179,060	21.6	154,000	17.4
Change in fund net position	$ (186,513)	(21.8) %	$ (105,790)	(12.8) %	$ (91,093)	(10.3) %
Cash and temporary investments	$ 1,000		$ 1,727		$ 2,886	
Capital lease payable	$ 148,951		$ 296,739		$ 257,705	



The Golf Course continues to operate at a loss. The City should continue to monitor rates by completing annual cash flow projections. The City has transferred funds in from the revolving capital fund to keep the cash balance positive. The funds in the revolving capital fund are from the sale of lots around the course a number of years ago. If transfers continue at the rate of the previous few years, the funds remaining from the lot sales will be exhausted by the end of 2014.

Ratio Analysis

The following captures a few ratios from the City's financial statements that give some additional information for trend and peer group analysis. The peer group average is derived from information available on the website of the Office of the State Auditor for Cities of the 4th class (2,500 to 10,000). The majority of these ratios facilitate the use of economic resources focus and accrual basis of accounting at the government-wide level. A combination of liquidity (ability to pay its most immediate obligations), solvency (ability to pay its long-term obligations), funding (comparison of financial amounts and economic indicators to measure changes in financial capacity over time) and common-size (comparison of financial data with other cities) ratios are shown below.

Ratio	Calculation	Source	2010	2011	2012
Debt to assets	Total liabilities/total assets	Government-wide	34%	32%	24%
			34%	*33%*	*N/A*
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	102%	120%	114%
			90%	*106%*	*N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 6,942	$ 5,712	$ 4,221
			$ 2,774	*$ 2,826*	*N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 1,056	$ 1,011	$ 1,041
			$ 458	*$ 500*	*N/A*
Current expenditures per capita	Governmental fund current expenditures/population	Governmental funds	$ 801	$ 751	$ 760
			$ 624	*$ 640*	*N/A*
Capital expenditures per capita	Governmental fund capital outlay/population	Governmental funds	$ 100	$ 351	$ 219
			$ 265	*$ 229*	*N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	46%	61%	58%
			68%	*64%*	*N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	78%	76%	74%
			68%	*65%*	*N/A*

Represents the City of Becker
Peer Group ratio

Debt-to-Assets Leverage Ratio (Solvency Ratio)

The debt-to-assets leverage ratio is a comparison of a city's total liabilities to its total assets or the percentage of total assets that are provided by creditors. It indicates the degree to which the City's assets are financed through borrowings and other long-term obligations (i.e. a ratio of 50 percent would indicate half of the assets are financing with outstanding debt).

Debt Service Coverage Ratio (Solvency Ratio)

The debt coverage ratio is a comparison of cash generated by operations to total debt service payments (principal and interest) of enterprise funds. This ratio indicates if there are sufficient cash flows from operations to meet debt service obligations. Except in cases where other nonoperating revenues (i.e. taxes, assessments, transfers from other funds, etc.) are used to fund debt service payments, an acceptable ratio would be above 100 percent.

Bonded Debt per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total bonded debt by the population of the City and represents the amount of bonded debt obligation for each citizen of the City at the end of the year. The higher the amount, the more resources are needed in the future to retire these obligations through taxes, assessments or user fees.

Taxes per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total tax revenues by the population of the City and represents the amount of taxes for each citizen of the City for the year. The higher this amount is, the more reliant the City is on taxes to fund its operations.

Current Expenditures per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total current governmental expenditures by the population of the City and represents the amount of governmental expenditure for each citizen of the City during the year. Since this is generally based on ongoing expenditures, we would expect consistent annual per capita results.

Capital Expenditures per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total governmental capital outlay expenditures by the population of the City and represents the amount of capital expenditure for each citizen of the City during the year. Since projects are not always recurring, the per capita amount will fluctuate from year to year.

Capital Assets Percentage (Common-size Ratio)

This percentage represents the percent of governmental or business-type capital assets that are left to be depreciated. The lower this percentage, the older the City's capital assets are and may need major repairs or replacements in the near future. A higher percentage may indicate newer assets being constructed or purchased and may coincide with higher debt ratios or bonded debt per capita.

Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future City financial statements:

GASB Statement No. 66 - *Technical Corrections- an Amendment of GASB Statements No. 10 and No. 62*

Summary

The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54*, Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The provisions of this Statement are effective for financial statements for `periods beginning after December 15, 2012. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports.

GASB Statement No. 67 - *The Financial Reporting for Pension Plans- an Amendment to GASB Statement No. 25*

Summary

The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. The comparability of the reported information for similar types of pension plans will be improved by the changes related to the attribution method used to determine the total pension liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due.

Future Accounting Standard Changes - Continued

GASB Statement No. 68 - *The Accounting and Financial Reporting of Pensions- an Amendment of GASB Statement No. 27*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information.

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This purpose of this communication is solely to provide management with the required communication to the City Council and to provide a summary of the audited results and our recommendations and analysis of the activity. Accordingly, this letter is not suitable for any other purpose.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

Abdo Eick & Meyers, LLP

April 17, 2013
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants