Management Letter

City of Becker

Becker, Minnesota

For the Year Ended
December 31, 2014

ABDO EICK & MEYERS LLP

Certified Public Accountants & Consultants

People + Process. Going Beyond the Numbers

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

April 15, 2015

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, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing 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 October 10, 2014. 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

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 over financial reporting. 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

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described on the following pages as items 2014-001 and 2014-002 that we consider to be significant deficiencies.

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2014-001 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 the City 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.

2014-002 Limited segregation of duties related to cash receipts, cash disbursements, payroll and utility billing

Condition: During our audit we reviewed procedures over cash disbursements, cash receipts, payroll and utility billing 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: *Cash disbursements*: The Treasurer has the ability to prepare checks, records disbursements, initiates wire transfers, and prepares the bank reconciliation.

Cash receipts: The Treasurer has the ability to set up/maintains customers, receives checks, records receipts, posts and approves journal entries, takes deposits to the bank and prepares the bank reconciliation.

Payroll: The Treasurer has the ability to setup/maintain employees, initiate the direct deposit and also prepares the bank reconciliation.

Utility Billing: The Utility Billing Clerk enters utility rates into the utility billing system, generates and mails utility bills, prepares bank deposits, is authorized to make billing adjustments, and records utility receipts in the utility billing system, which is transferred to the accounting system.

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

Recommendation: While we recognize that the number of staff is not large enough to eliminate these deficiencies completely, we believe the risk can be reduced with additional monitoring. 1) We recommend that an individual, separate from the Treasurer, receive the unopened/original bank statement (manual or online) first and review the monthly bank statements, verifying the proper endorsements, scanning the electronic disbursements and cancelled checks for any unusual payees or amounts, and agreeing deposits to the receipt journal. 2) A formal review of payroll should be completed and documented, including the amounts withdrawn for payroll should be compared to the payroll register, time sheets, and respective journal entry. Also, we recommend that the payroll register be initialed by the Administrator to verify review and approval. 3) We recommend that an employee other than the Utility Billing Clerk formally document a review of the monthly utility reports for each billing period, utilizing the review checklist provided by the auditors. We feel utilizing the checklist to assist in documenting a formal review will alleviate some of the risks related to utility billing. We feel if these recommendations are followed the finding may be removed in 2015.

City Council should also be reminded of their duties over finance at least annually. Some typical monitoring duties would include the following tasks:

- Claims approval is an important control and should continue to be at the front of the meeting to ensure that City Council reviews the claims closely.
- Continue to thoroughly review budget versus actual reports and narrative at least quarterly.
- Monitor progress over the development of documented policies and procedures.
- The check sequence should be reported in each set of approved minutes. The City Council should review the order of the checks approved to ensure that they move in sequence and any gaps in number are explained.
- Consider personnel policies that require someone else to fill finance duties for a period of time. A mandatory vacation period of one week for all finance staff and distribution of their duties for that week is often recommended.

Management response:

The City Council continues to review and approve a claims list which includes a check sequence at all regular meetings. In addition, comparison of budget and actual detail is reviewed monthly as part of the budget and finance committee review. A report of the budget and finance committee is given monthly at the city council level. Management continues to review the processes and recommendations above and strives to implement those which are cost-effective and feasible for the entire organization in 2015.

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 Minnesota statutes. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of the City's compliance with those requirements. We noted no instances of noncompliance with Minnesota statutes.

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 City amended their capital asset policy in 2014 increasing their capitalization threshold from $5,000 to $10,000. No other accounting policies were adopted and the application of other existing policies were not changed during the year ended December 31, 2014. We noted no transactions entered into by the governmental unit 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, with the exception of the prior period adjustment noted in note 6.

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, and compensated absences.

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.

- Allocations of gross wages and payroll benefits are approved by the City Council within the City's budget and are derived from each employee's estimated time to be spent servicing the respective function of the City. These allocations are also used in allocating accrued compensated absences payable.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

We 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. The City should establish more detailed processes and procedures to reduce the total number of entries in each category. The City will receive better and timelier information if the preparation of year end entries is completed internally.

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 dated April 15, 2015**.**

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.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Items

As part of our audit procedures we performed procedures/walkthroughs of transaction cycles performed during operation of the community center and golf course. We discussed the procedures performed related to the receipts, disbursements, payroll and inventory transaction cycles with staff and documented the steps performed and understanding of processes. Walkthroughs were completed for randomly selected receipts and disbursements, determining that procedures were being performed as documented. We also completed an inventory test count at the golf course. As a result of the procedures performed, we noted procedures were performed as described and in accordance with City policies, and no significant discrepancies during testing completed.

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, 2014.

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 $219,419 from 2013. The total ending fund balance of $1,429,661 is 47 percent of current year expenditures and transfers out. We recommend the fund balance be maintained at a level sufficient to fund operations until the major revenue sources are received in June. The City has formally adopted a fund balance policy for the General fund which is to maintain a minimum unrestricted fund balance of 40 percent of the next year's budgeted expenditures for cash-flow timing needs. The General funds unrestricted fund balance as a percentage of 2015 budgeted expenditures is 29.6% at year end. The City's ending fund balance is below their target level.

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.

- 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.

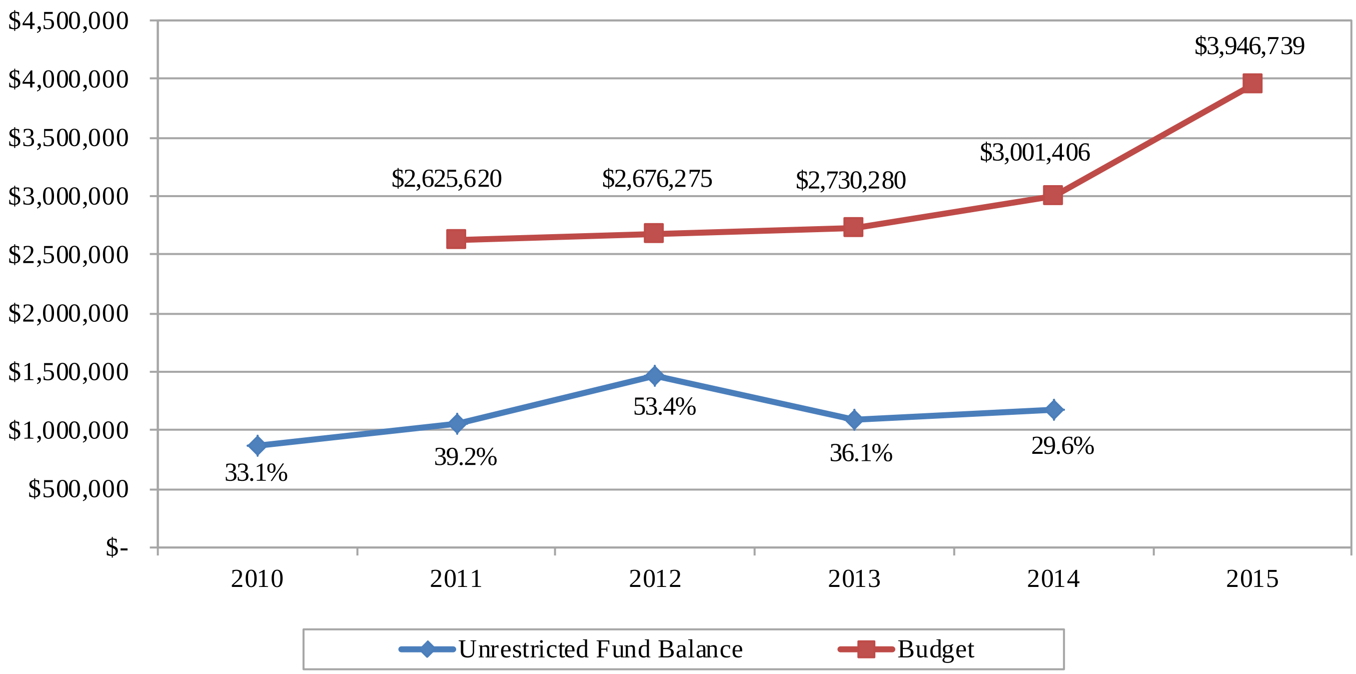
Fund Balance

A table summarizing the unrestricted and total General fund balance in relation to budget follows.

Year	Unrestricted Fund Balance December 31	Total Fund Balance December 31	Budget Year	General Fund Budget	Percent of Unrestricted Fund Balance to Budget	Percent of Total Fund Balance to Budget
2010	$ 869,026	$ 1,027,372	2011	$ 2,625,620	33.1 %	39.1 %
2011	1,049,181	1,187,734	2012	2,676,275	39.2	44.4
2012	1,456,757	1,573,261	2013	2,730,280	53.4	57.6
2013	1,082,293	1,210,242	2014	3,001,406	36.1	40.3
2014	1,166,987	1,429,661	2015	3,946,739	29.6	36.2

* The increase in budget in 2015 is related to the capital levy and related transfers out to the revolving capital fund.

Unrestricted Fund Balance as a Percent of Next Year's Budget



A summary of the 2014 operations are as follows:

	Final Budget Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 3,031,406	$ 3,280,252	$ 248,846
Expenditures	2,413,506	2,442,933	(29,427)
Excess of revenues over expenditures	617,900	837,319	219,419
Other financing uses			
Transfers out	(617,900)	(617,900)	-
Net change in fund balances	-	219,419	219,419
Fund balances, January 1	1,210,242	1,210,242	-
Fund balances, December 31	$ 1,210,242	$ 1,429,661	$ 219,419

- Revenues exceeded budgeted expectations by $248,846. This is primarily related to revenues from licenses and permits and special assessments being over budget by $81,964 and $72,998, respectively.

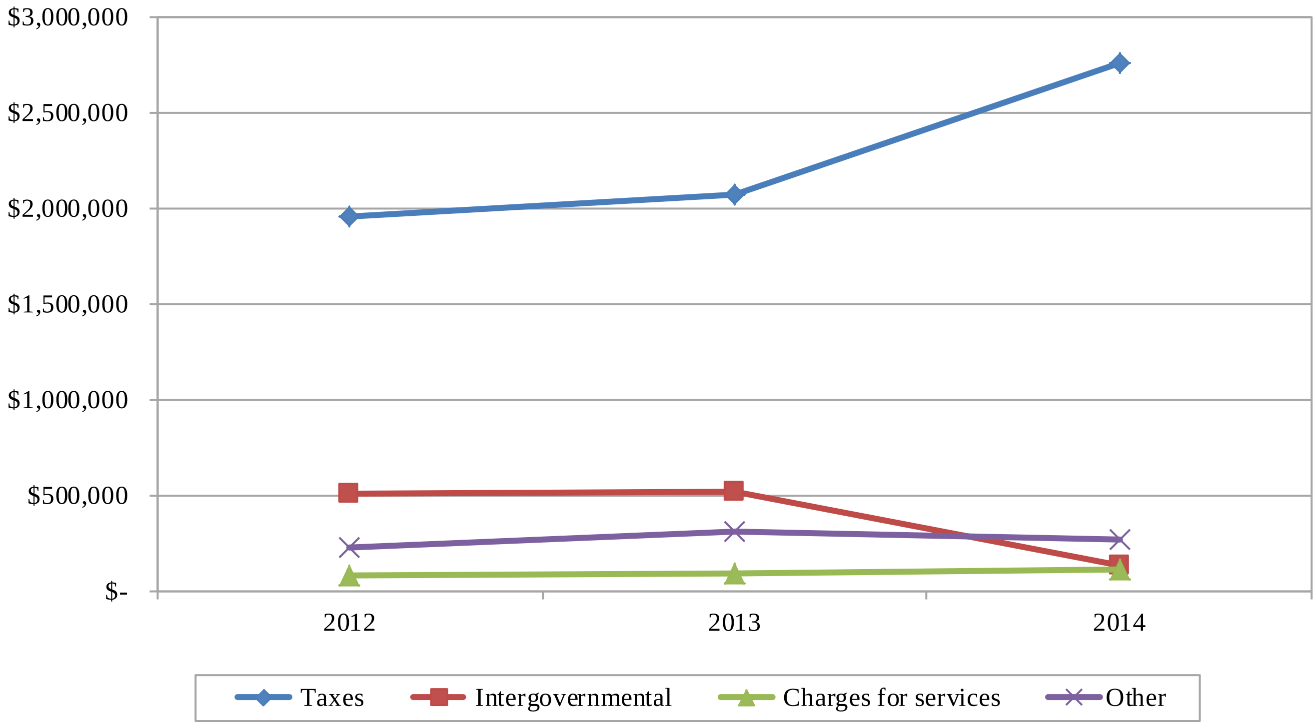
- The total expenditures had a negative budget variance of $29,427. The general government current expenditure function had the significant negative variance coming in $42,320 over budget due to increased professional services and the payout of cemetery funds. Public works expenditures came in $91,697 lower than budget due to lower than budgeted personal services and supplies.

A more detailed comparison of General fund revenues and transfers for the last three years is as follows:

Revenue Source	2012	2013	2014	Percent of Total	Per Capita
Taxes	$ 1,956,182	$ 2,073,166	$ 2,754,688	84.0 %	$ 592
Licenses and permits	80,570	184,736	135,964	4.1	29
Intergovernmental	505,282	522,044	138,527	4.2	30
Charges for services	85,979	93,975	117,091	3.6	25
Fines and forfeitures	8,312	12,000	14,665	0.5	3
Special assessments	54,070	94,082	72,998	2.2	16
Interest on investments	10,932	(8,381)	29,579	0.9	6
Miscellaneous	64,202	23,216	16,740	0.5	4
Transfers in	4,750	3,179	-	-	-
Total revenues and transfers	$ 2,770,279	$ 2,998,017	$ 3,280,252	100.0 %	$ 705

The revenues and transfers summarized above are graphically presented as follows:

General Fund - Revenues by Source

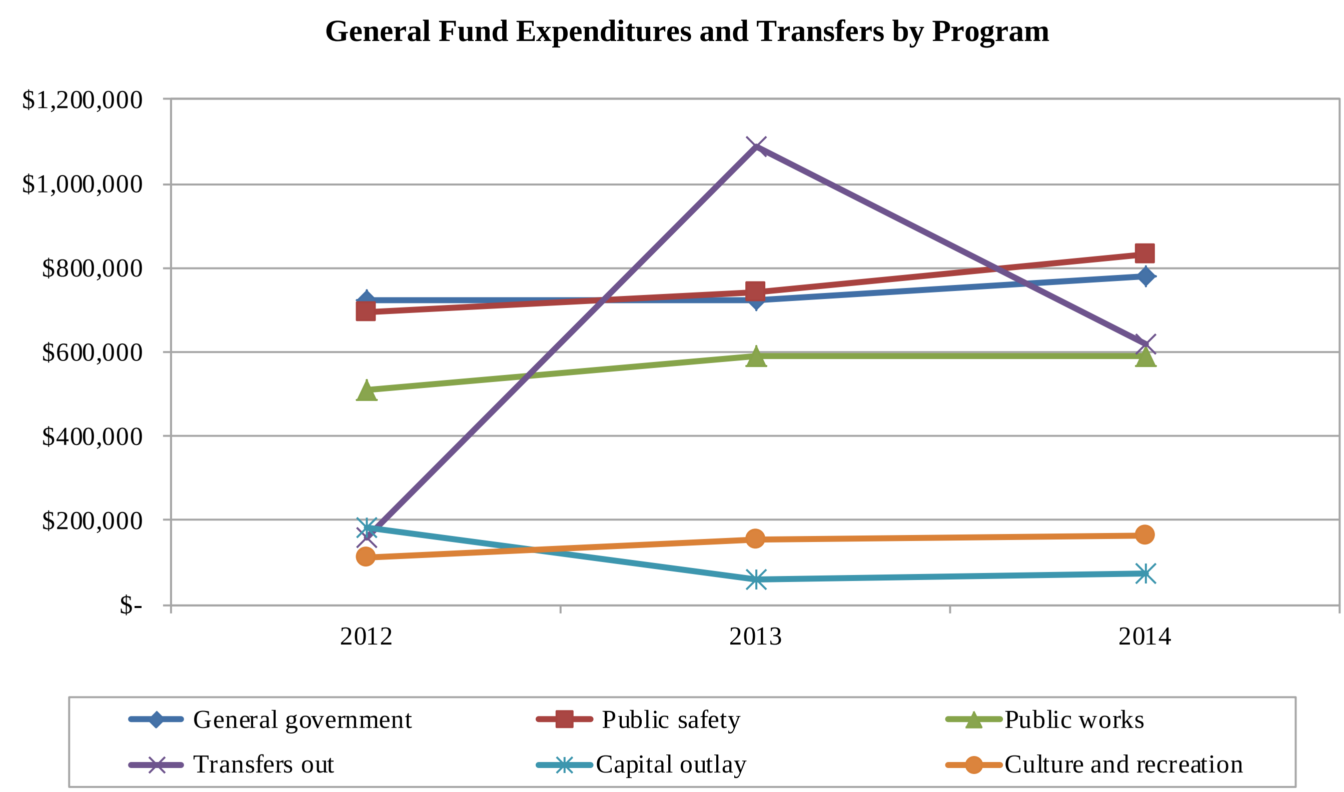


A more detailed comparison of expenditures and transfers for the last three years is as follows:

Program	2012	2013	2014	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	$ 725,853	$ 725,028	$ 781,171	25.5 %	$ 168	$ 128
Public safety	695,942	742,915	831,416	27.2	179	221
Public works	508,405	592,553	590,103	19.3	127	114
Culture and recreation	112,909	154,396	165,308	5.4	36	54
Total current	2,043,109	2,214,892	2,367,998	77.4	510	517
Capital outlay	181,743	59,044	74,935	2.4	16	28
Transfers out	159,900	1,087,100	617,900	20.2	133	-
Total expenditures and transfers	$ 2,384,752	$ 3,361,036	$ 3,060,833	100.0 %	$ 659	$ 545

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 requested from the Office of the State Auditor for fourth class cities (populations 2,500-10,000) across the State.

The expenditures and transfers summarized above are graphically presented 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, 2014 and 2013:

Fund	Fund Balances December 31, 2014	Fund Balances December 31, 2013	Increase (Decrease)
Major			
Community Center	$ (135,918)	$ (74,394)	$ (61,524)
Nonmajor			
Fire Department	601,000	473,518	127,482
Economic Development	277,406	249,086	28,320
Total	$ 742,488	$ 648,210	$ 94,278

All funds should have sufficient resources to provide for their operations but occasionally deficits will occur. The Fire Department fund increased $127,482 and the Economic Development fund $28,320 during the year as a result of revenues in excess of expenditures in each fund. The Community Center fund balance decreased $61,524 from 2013, as a result of a transfer out to the revolving capital fund for future capital as well as additional payroll expenditures, and 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.

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.

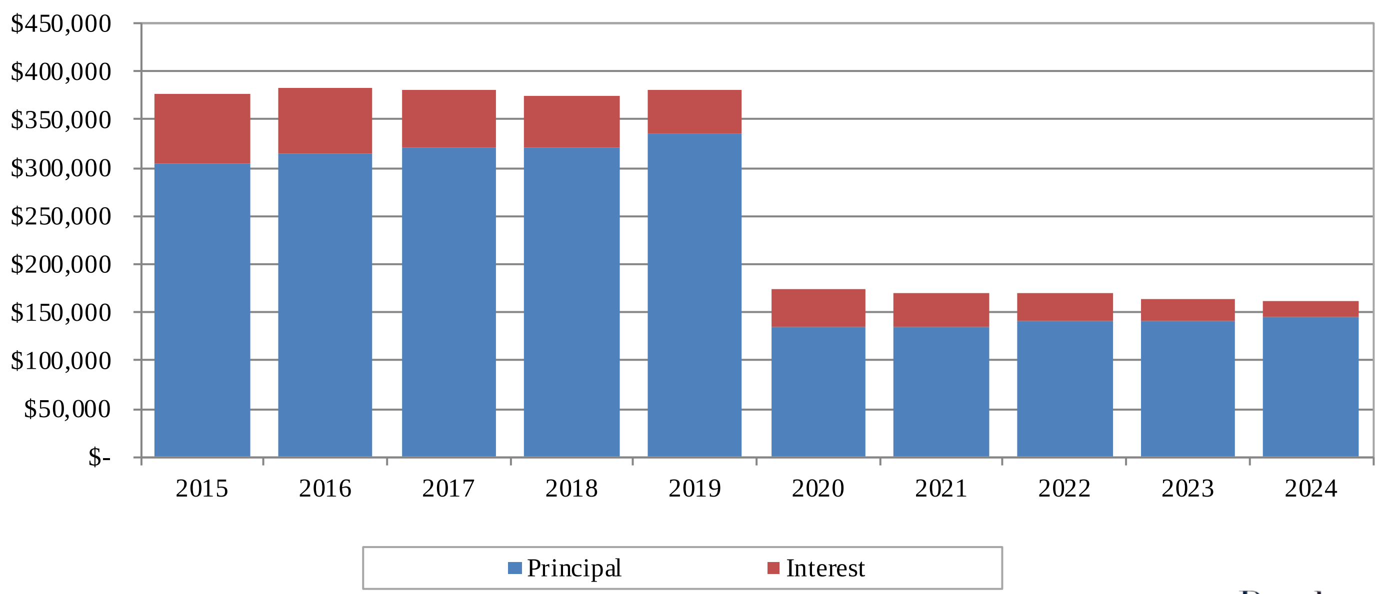
In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- 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	$ 144,189	$ 381,638	$ 970,000	02/01/19
G.O. Improvement Bonds, Series 2010A	540,292	1,342,874	1,620,000	02/01/26
Total	$ 684,481	$ 1,724,512	$ 2,590,000	
Total remaining interest payments			$ 458,443	

Debt Service Scheduled Principal and Interest for the Next 10 Years



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, 2014 and 2013:

Fund	Fund Balances December 31, 2014	Fund Balances December 31, 2013	Increase (Decrease)
Major			
Revolving Capital	$ 6,350,584	$ 7,069,125	$ (718,541)
Nonmajor			
Trunk Facilities	219,717	243,099	(23,382)
2011 Industrial Park Street and Utility Improvement	906,737	885,673	21,064
Fossum Fields Road Pedestrian Path	46,639	41,077	5,562
Total	$ 7,523,677	$ 8,238,974	$ (715,297)

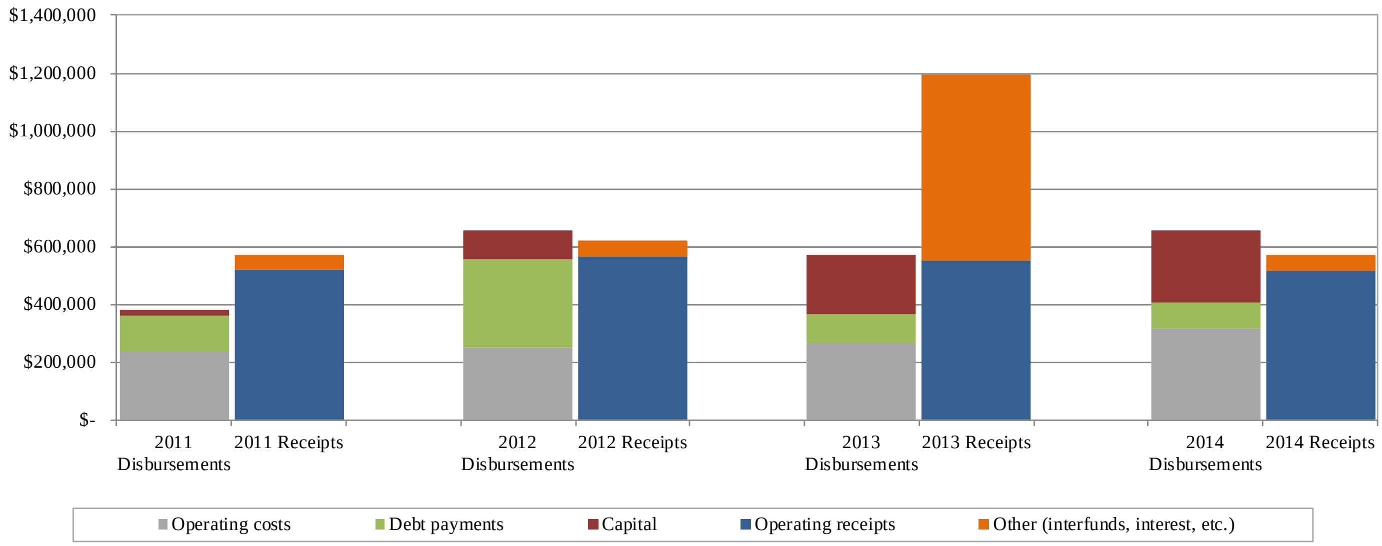
The City has done well monitoring the status of outstanding capital project funds, identifying financing to eliminate deficits and closing those that are complete. We recommend the City continue to evaluate the status of each fund annually.

The decrease in the revolving capital fund is due to a combination of items including: capital outlay of approximately $1,450,000, transfers in of approximately $690,000, and a transfer out of approximately $130,000 to the Golf fund for operations.

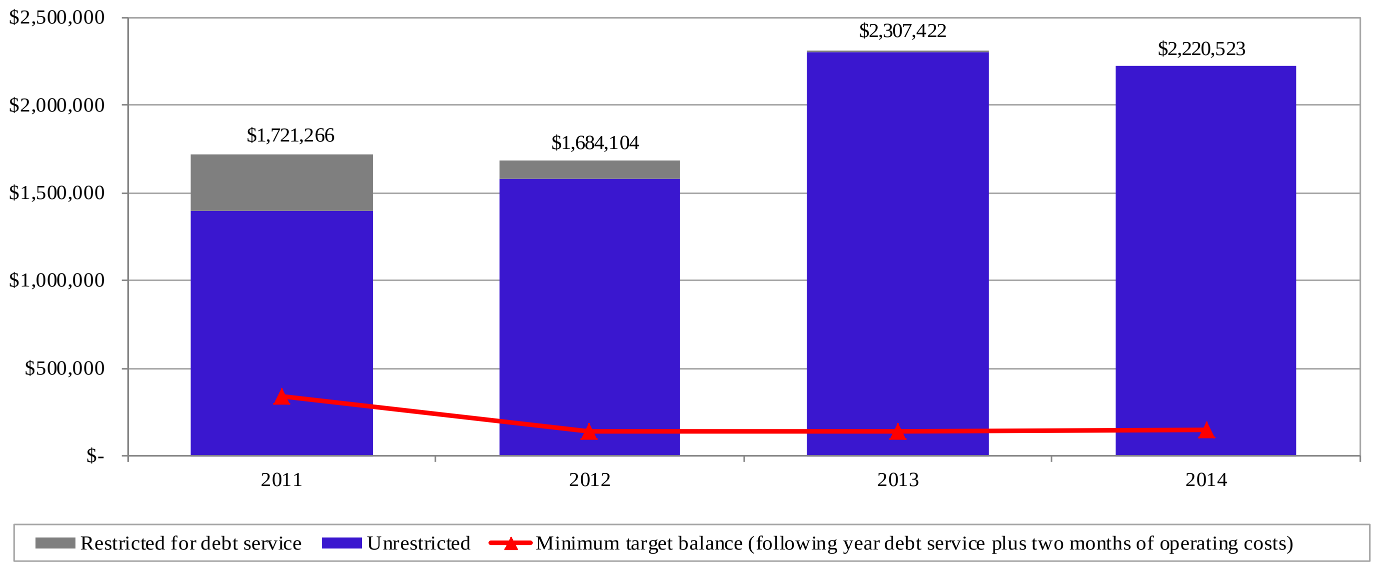
Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises-where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The results of the operations in terms of cash flow and the breakdown of the cash balances for the past four years are as follows:

Water Fund Cash Flow - Excluding 2012A Refunding Bond Activity



Water Fund Cash Balances - Excluding 2012A Refunding Bond Activity



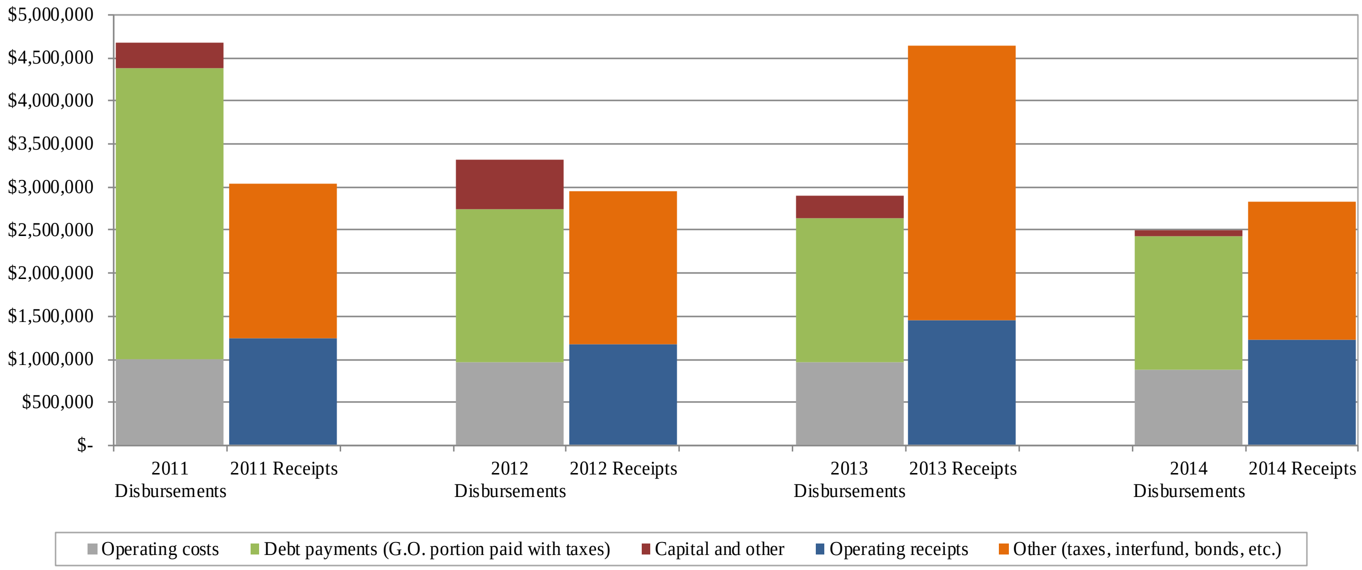
	2011	2012	2013	2014
Bonds payable	$ 1,090,000	$ 840,000	$ 755,000	$ 675,000

Some of the items with significant changes are highlighted below:

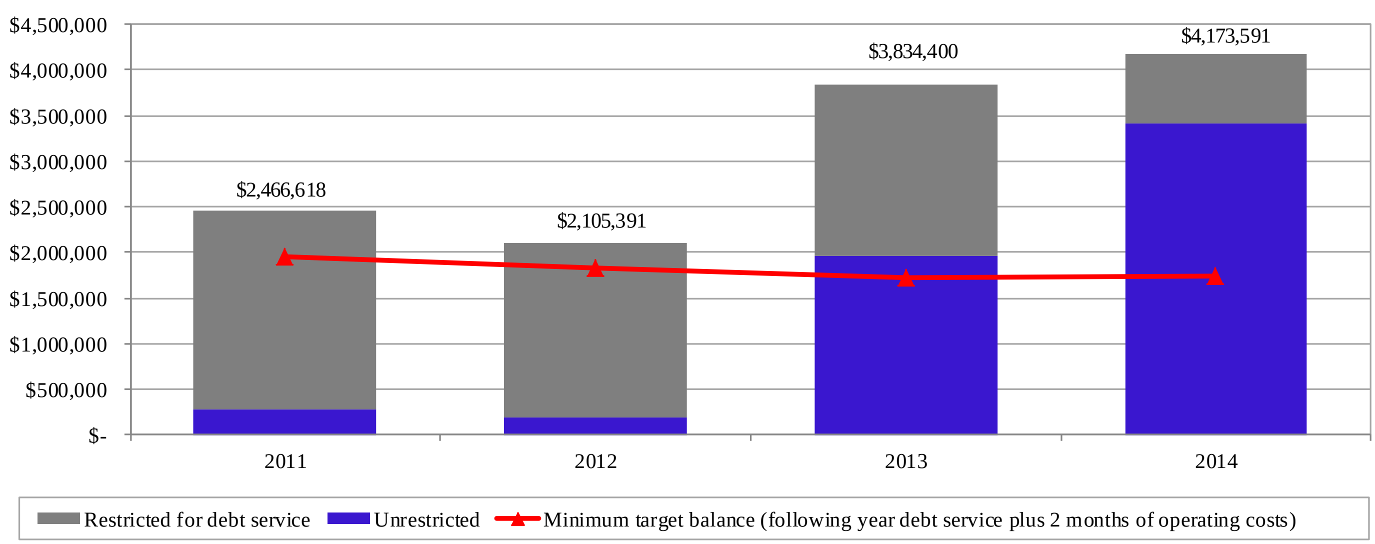
- Operating receipts (blue) were sufficient to cover operating costs (grey) and debt payments (green) in each of the prior four years.

Operating margins are sufficient to keep pace with operating expenses. The current cash balance appears adequate to cover operations. The City should continue to monitor operations and rates to ensure all operating, capital and debt service expenses are covered.

Sewer Fund Cash Flow - Excluding 2012A Refunding Bond Activity



Sewer Fund Cash Balance - Excluding 2012A Refunding Bond Activity



	2011	2012	2013	2014
Bonds payable	$ 11,360,000	$ 15,300,000	$ 13,960,000	$ 7,385,000

Some of the items with significant changes are highlighted below:

- Operating receipts (blue) were sufficient to cover operating costs (grey) in each of the prior four years. Also, with exception of 2011, operating receipts (blue) and other receipts (mainly taxes) have been sufficient to cover operating costs (grey) and debt payments (green).

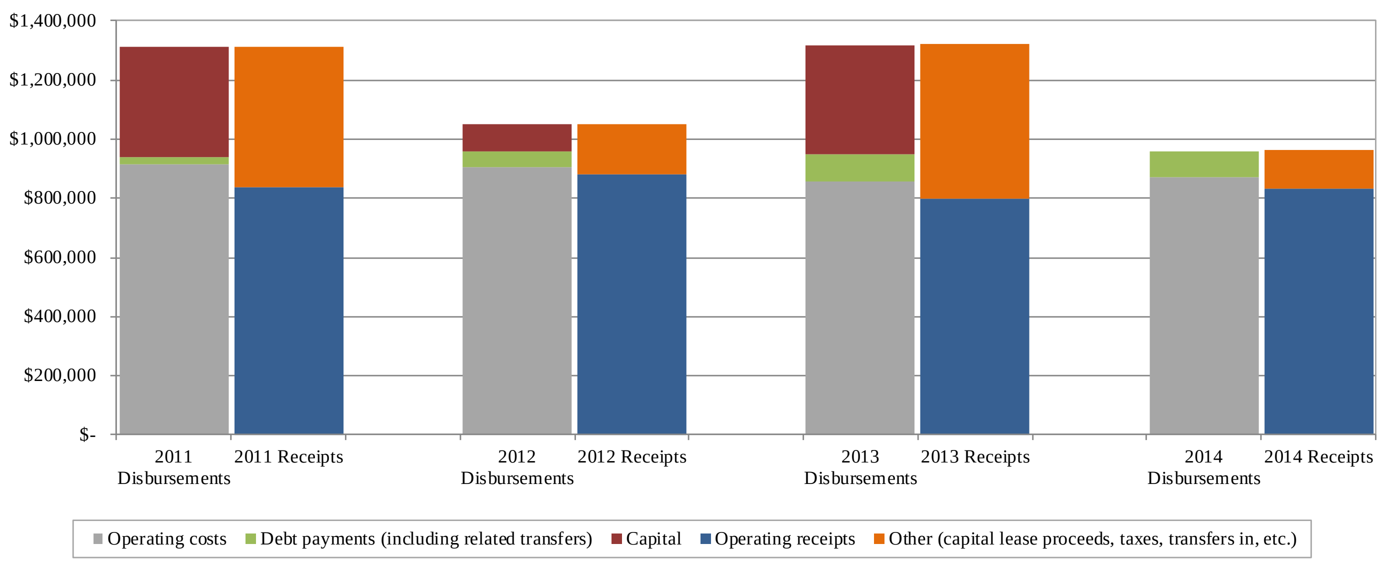
- The payoff of $5,200,000 of the 2005A Wastewater Treatment Facility bond was completed. The cash had been held in escrow and the payment was made on February 1, 2014.

Operating margins are sufficient to keep pace with operating expenses. The current cash balance appears adequate to cover operations. The City should continue to monitor operations and rates to ensure all operating, capital and debt service expenses are covered.

Golf Course Operations

	2012 Total	2012 Percent	2013 Total	2013 Percent	2014 Total	2014 Percent
Merchandise sales	$ 112,860	12.8 %	$ 94,967	11.5 %	$ 112,836	14.0 %
Cost of sales	(78,740)	(8.9)	(75,707)	(9.1)	(83,241)	(10.3)
Gross Profit	34,120	3.9	19,260	2.4	29,595	3.7
Operating revenues	772,113	87.2	733,743	88.5	692,961	86.0
Operating expenses	(826,513)	(93.4)	(785,027)	(94.7)	(789,518)	(98.0)
Depreciation	(220,728)	(24.9)	(250,139)	(30.2)	(230,950)	(28.7)
Operating loss	(241,008)	(27.2)	(282,163)	(34.0)	(297,912)	(37.0)
Nonoperating revenues (expenses)	8,025	1	(4,668)	(1)	(76,044)	(9)
Interest expense	(12,110)	(1.4)	(13,183)	(1.6)	(10,646)	(1.3)
Loss before transfers	(245,093)	(27.7)	(300,014)	(36.2)	(384,602)	(47.7)
Transfers in	154,000	17.4	359,113	43.3	130,000	16.1
Change in fund net position	$ (91,093)	(10.3) %	$ 59,099	7.1 %	$ (254,602)	(31.6) %
Cash and temporary investments	$ 2,886		$ 4,209		$ 9,126	
Capital lease payable	$ 257,705		$ 332,883		$ 259,156	

Golf Fund Cash Flow



Some of the items with significant changes are highlighted below:

- Operating receipts (blue) were not sufficient to cover operating costs (grey) and debt payments (green) in any of the prior four years.
- A transfer of $130,000 was received in 2014 from the Revolving Capital fund to support operations.

The Golf Course continues to operate at a loss. The City should continue to monitor rates by completing annual cash flow projections. The City is currently reviewing a variety of funding/operating options for the future of the golf course.

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 we have requested from 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	2011	2012	2013	2014
Debt to assets	Total liabilities/total assets	Government-wide	32%	24%	23%	15%
			33%	*33%*	*32%*	*N/A*
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	120%	114%	129%	113%
			106%	*106%*	*117%*	*N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 5,712	$ 4,221	$ 3,821	$ 2,288
			$ 2,826	*$ 2,626*	*$ 2,656*	*N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 1,011	$ 1,041	$ 1,031	$ 1,135
			$ 500	*$ 480*	*$ 487*	*N/A*
Current expenditures per capita	Governmental fund current expenditures/population	Governmental funds	$ 751	$ 760	$ 770	$ 821
			$ 640	*$ 649*	*$ 634*	*N/A*
Capital expenditures per capita	Governmental fund capital outlay/population	Governmental funds	$ 351	$ 219	$ 477	$ 352
			$ 229	*$ 298*	*$ 294*	*N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	61%	58%	57%	56%
			64%	*65%*	*64%*	*N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	76%	74%	72%	70%
			65%	*63%*	*63%*	*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: [(1)]

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.

GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measure Date - an Amendment of GASB Statement No. 68*

Summary

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

GASB Statement No. 72 - *Fair Value Measurement and Application*

Summary

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair Value Measurement

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

A fair value measurement takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, a government should be able to use the fair value of that asset to measure the fair value of the liability.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.

Fair Value Application

This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

Fair Value Disclosures

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

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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

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 15, 2015

People + Process. Going Beyond the Numbers