

Management Letter

City of Becker

Becker, Minnesota

For the Year Ended
December 31, 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, 2013. 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 November 11, 2013. 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, we considered the City's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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. 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 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 identified certain deficiencies in internal control over financial reporting, described in the following pages as findings 2013-001 and 2013-002, which we consider to be significant deficiencies in internal control over financial reporting.

2013-001 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 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.

2013-002 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.
- 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 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 requirements of GASB statement No. 61 were adopted for the year ended December 31, 2013. The application of existing policies was not changed during the year. 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 include depreciation on capital assets and allocation of payroll.

- 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.

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 May 7, 2014.

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 Item

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, 2013.

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 decreased \$363,019 from 2012. The fund balance of \$1,210,242 is 36 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.

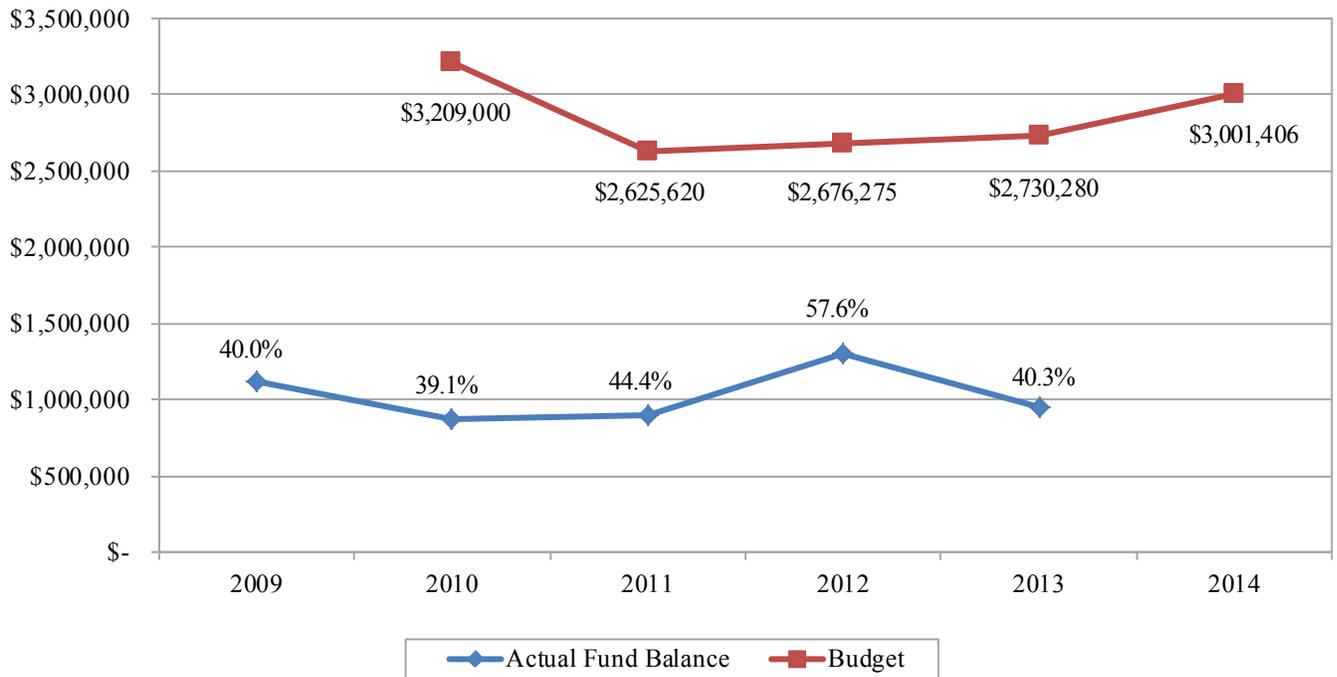
The purposes and benefits of a fund balance are as follows:

- 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. The State continually adjusts the local government aid formulas. An adequate fund balance will provide a temporary buffer against aid adjustments.
- 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.

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	2,730,280	47.7	57.6
2013	946,533	1,210,242	2014	3,001,406	31.5	40.3

Fund Balance as a Percent of Next Year's Budget



We have compiled a peer group average derived from information we have requested from the Office of the State Auditor and then compiled data for Cities of the 4th class which have populations of 2,500-10,000. In 2011 and 2012, the average General fund balance as a percentage of expenditures was 69 percent and 76, percent, respectively. Although, the City's percentage is lower than the peer group, the 40.3 percent is in accordance with the City's adopted fund balance policy and excess funds are transferred to other funds as approved by Council.

A summary of the 2013 operations are as follows:

	Final Budget Amounts	Actual Amounts	Variance with Final Budget
Revenues	\$ 2,730,280	\$ 2,994,838	\$ 264,558
Expenditures	<u>2,323,180</u>	<u>2,273,936</u>	<u>49,244</u>
Excess of revenues over expenditures	<u>407,100</u>	<u>720,902</u>	<u>313,802</u>
Other financing sources (uses)			
Transfers in	-	3,179	3,179
Transfers out	<u>(407,100)</u>	<u>(1,087,100)</u>	<u>(680,000)</u>
Total other financing sources (uses)	<u>(407,100)</u>	<u>(1,083,921)</u>	<u>(676,821)</u>
Net change in fund balances	-	(363,019)	(363,019)
Fund balances, January 1	<u>1,573,261</u>	<u>1,573,261</u>	<u>-</u>
Fund balances, December 31	<u><u>\$ 1,573,261</u></u>	<u><u>\$ 1,210,242</u></u>	<u><u>\$ (363,019)</u></u>

The total expenditures had a positive budget variance of \$49,244. The most significant positive expenditure variance was in public works department which was under budget by \$74,747 due to less than expected expenses related to personal services in the fund.

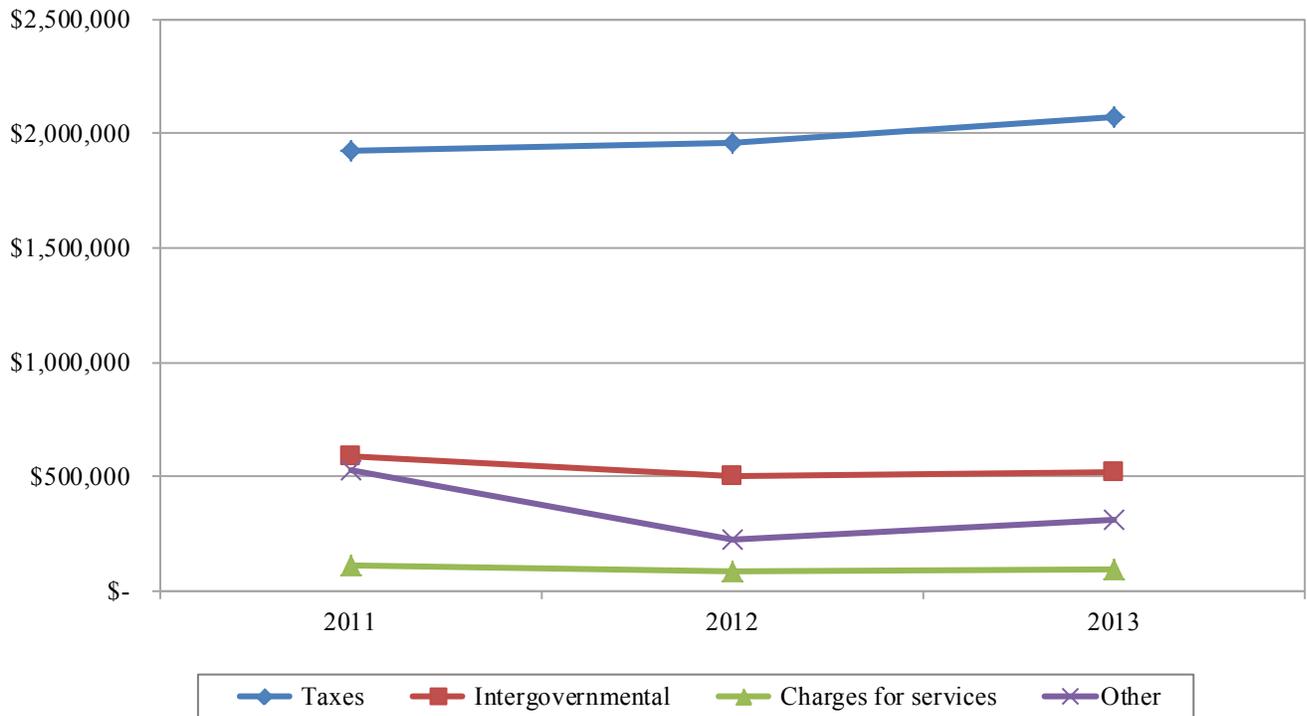
The total revenues had a positive budget variance of \$264,558. This can be attributed to licenses and permits and special assessments being over budget by \$140,736 and \$94,082, respectively.

Transfers out exceeded budget by \$680,000 as a result of additional transfers to the Revolving Capital fund, in accordance with the City's fund balance policy.

A summary and comparison of 2011, 2012, and 2013 General fund revenues and transfers in are as follows:

Revenue Source	2011	2012	2013	Percent of Total	Per Capita
Taxes	\$ 1,921,680	\$ 1,956,182	\$ 2,073,166	69.2 %	\$ 450
Licenses and permits	50,353	80,570	184,736	6.2	40
Intergovernmental	585,140	505,282	522,044	17.4	113
Charges for services	113,779	85,979	93,975	3.1	20
Fines and forfeitures	15,013	8,312	12,000	0.4	3
Special assessments	73,044	54,070	94,082	3.1	20
Interest on investments	6,229	10,932	(8,381)	(0.3)	(2)
Miscellaneous	56,807	64,202	23,216	0.8	5
Transfers in	324,467	4,750	3,179	0.1	1
Total revenues and transfers	\$ 3,146,512	\$ 2,770,279	\$ 2,998,017	100.0 %	\$ 650

The sources of 2011, 2012, and 2013 revenues and transfers are presented graphically as follows:



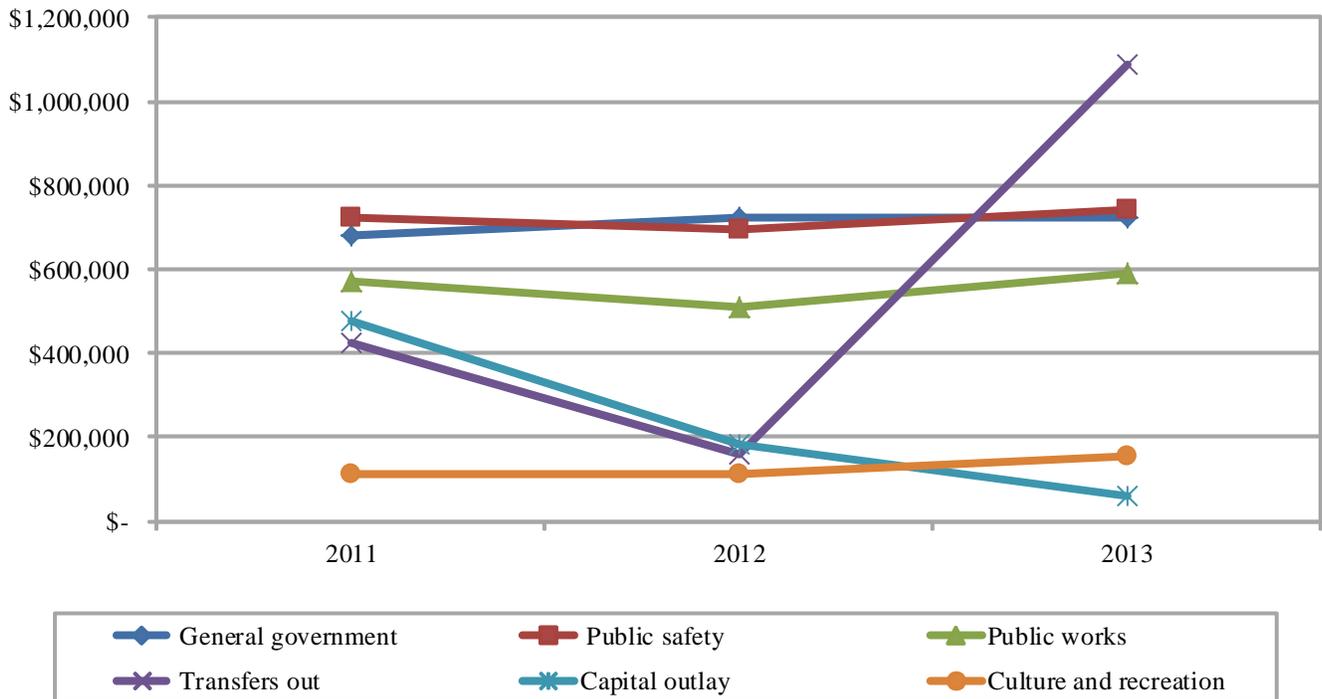
A summary and comparison of 2011, 2012, and 2013 General fund expenditures and transfers out are as follows:

Program	2011	2012	2013	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	\$ 680,997	\$ 725,853	\$ 725,028	21.6 %	\$ 157	\$ 125
Public safety	722,525	695,942	742,915	22.1	161	218
Public works	571,090	508,405	592,553	17.6	129	106
Culture and recreation	111,386	112,909	154,396	4.6	33	54
Total current	2,085,998	2,043,109	2,214,892	65.9	480	503
Capital outlay	474,964	181,743	59,044	1.8	13	34
Transfers out	425,188	159,900	1,087,100	32.3	236	-
Total expenditures and transfers	\$ 2,986,150	\$ 2,384,752	\$ 3,361,036	100.0 %	\$ 729	\$ 537

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 increase in transfers out was in accordance with the City’s adopted fund balance policy. The transfer out was to the Revolving Capital fund and will be used for future capital purchases.

The 2011, 2012, and 2013 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, 2013 and 2012:

Fund	Fund Balances December 31,		Increase (Decrease)
	2013	2012	
Major			
Fire Department	\$ 473,518	\$ 919,968	\$ (446,450)
Community Center	(74,394)	(86,114)	11,720
Nonmajor			
Economic Development	249,086	228,283	20,803
 Total	 \$ 648,210	 \$ 1,062,137	 \$ (413,927)

All funds should have sufficient resources to provide for their operations but occasionally deficits will occur. The Fire fund decrease can be attributed capital outlay purchases of \$689,104 during the year. The Community Center fund balance increased \$11,720 from 2012, 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.

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.

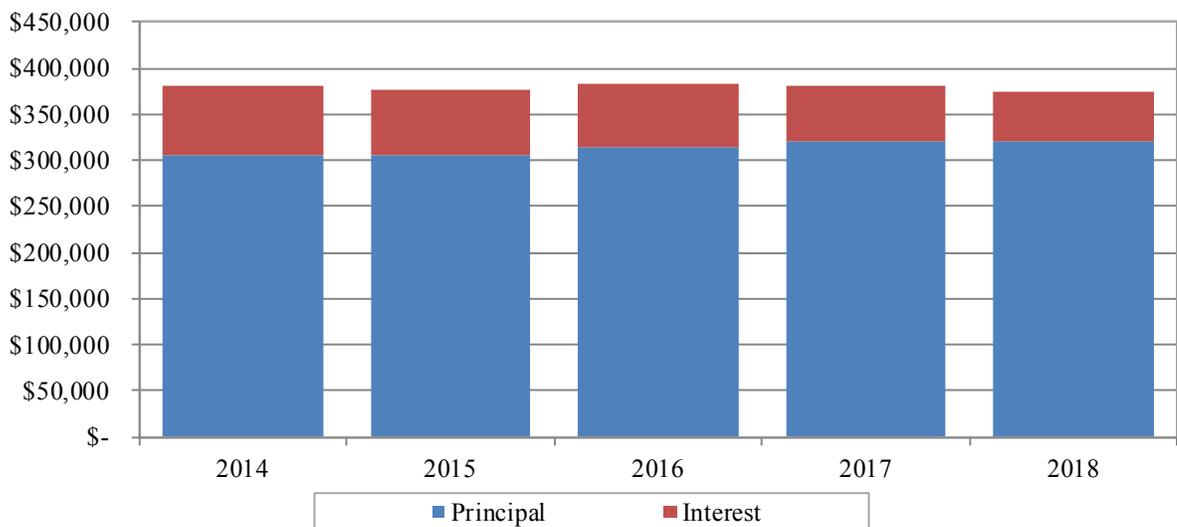
In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- 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	\$ 176,203	\$ 407,713	\$ 1,155,000	02/01/19
G.O. Improvement Bonds, Series 2010A	598,865	1,449,760	1,740,000	02/01/26
Total	<u>\$ 775,068</u>	<u>\$ 1,857,473</u>	<u>\$ 2,895,000</u>	
		Total remaining interest payments	<u>\$ 533,965</u>	

Debt Service Scheduled Principal and Interest for the Next 5 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, 2013 and 2012:

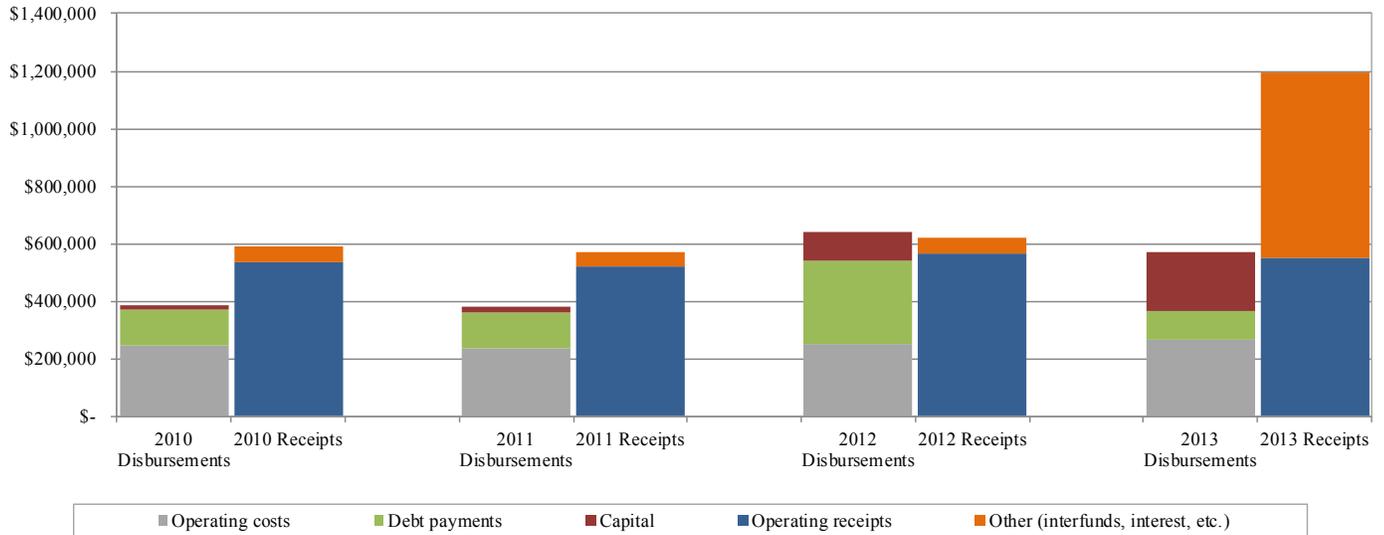
Fund	Fund Balances		Increase (Decrease)
	December 31, 2013	December 31, 2012	
Major			
Revolving Capital	\$ 7,069,125	\$ 8,823,864	\$ (1,754,739)
Nonmajor			
Trunk Facilities	243,099	880,337	(637,238)
2011 Industrial Park Street and Utility Improvement	885,673	895,664	(9,991)
Fossum Fields Road Pedestrian Path	41,077	43,562	(2,485)
Total	<u>\$ 8,238,974</u>	<u>\$ 10,643,427</u>	<u>\$ (2,404,453)</u>

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, a transfer in from the General fund of approximately \$1,100,000, a transfer out of approximately \$360,000 to the Golf enterprise fund to support operations and a transfer out of approximately \$1,400,000 to the Sewer fund for capital purchases. The decrease in the Trunk Facilities fund is due to a transfer out of \$699,330.

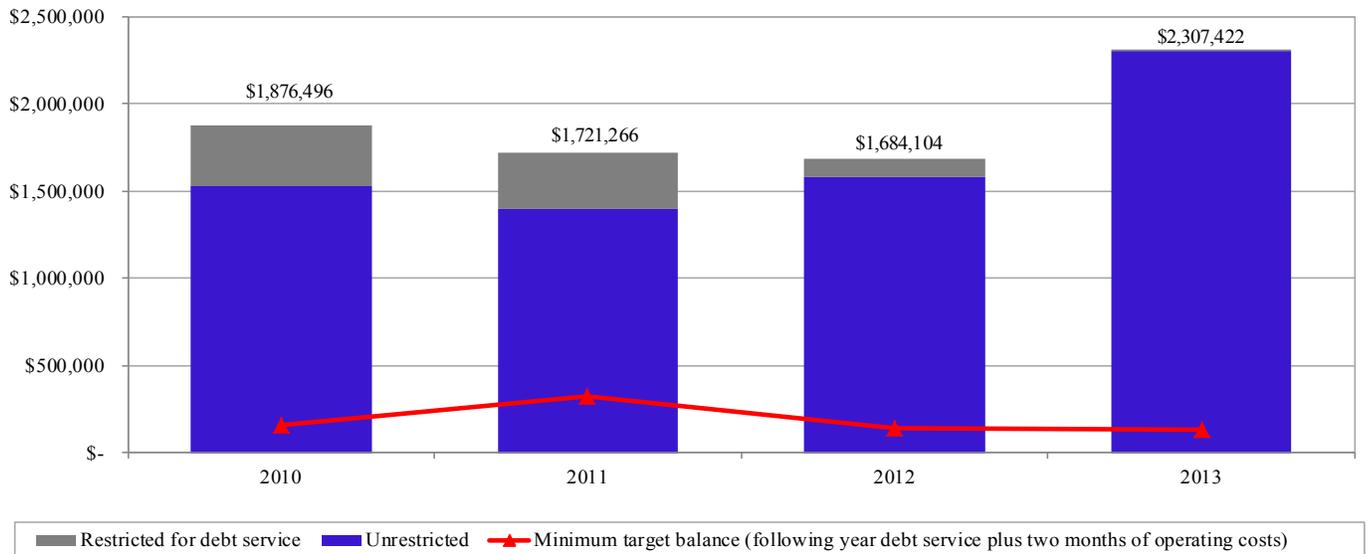
Enterprise Funds

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 Cashflow - Excluding 2012A Refunding Bond Activity



Water Fund Cash Balances - Excluding 2012A Refunding Bond Activity

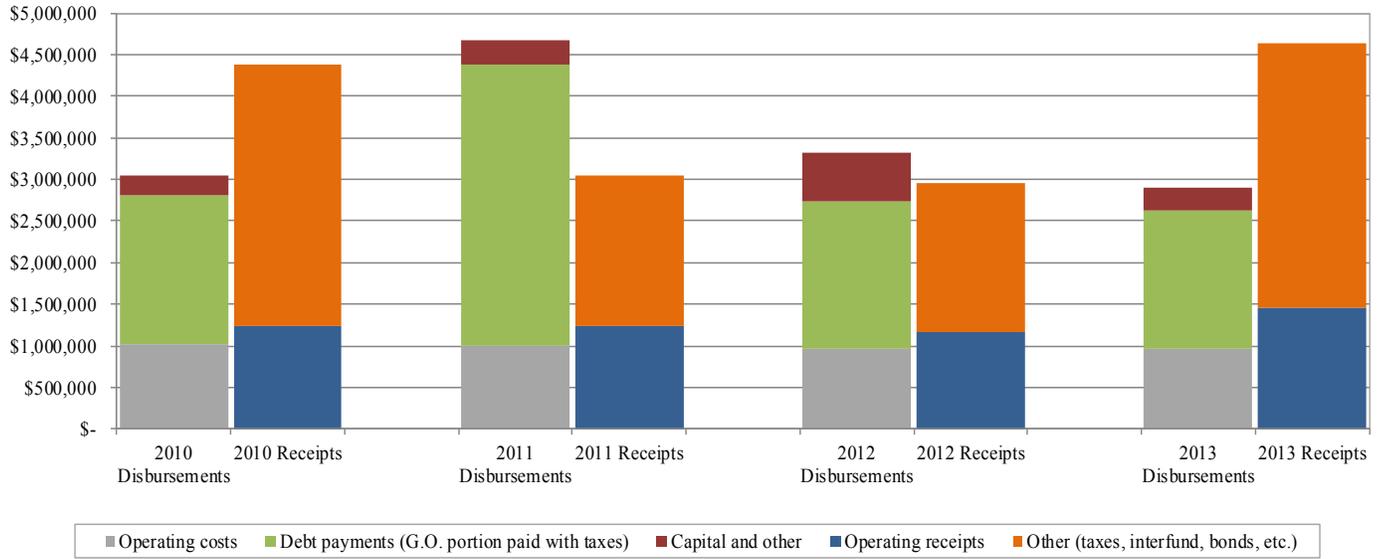


Some of the items with significant changes are highlighted below:

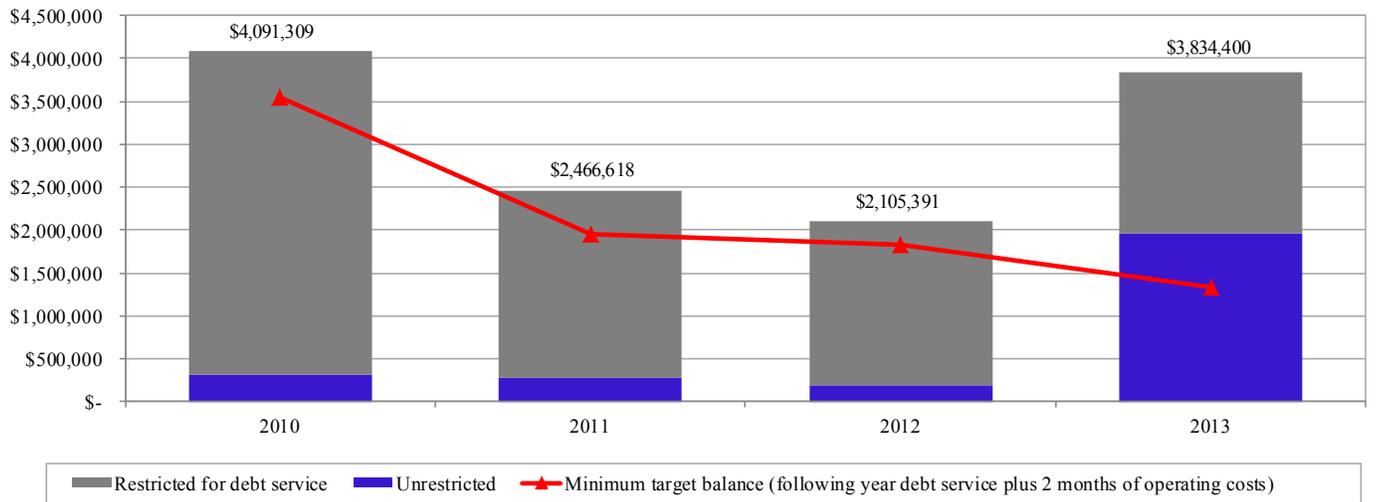
- Operating receipts (blue) were sufficient to cover operating costs (grey) and debt payments (green) in each of the prior four years.
- A transfer of \$659,330 was received in 2013 from nonmajor governmental funds for future capital outlay.
- Overall operating receipts were consistent with the prior year.

We recommend the City review rates annually to determine if operating revenues will cover operating costs and future projects.

Sewer Fund Cashflow - Excluding 2012A Refunding Bond Activity



Sewer Fund Cash Balance - Excluding 2012A Refunding Bond Activity



Some of the items with significant changes are highlighted below:

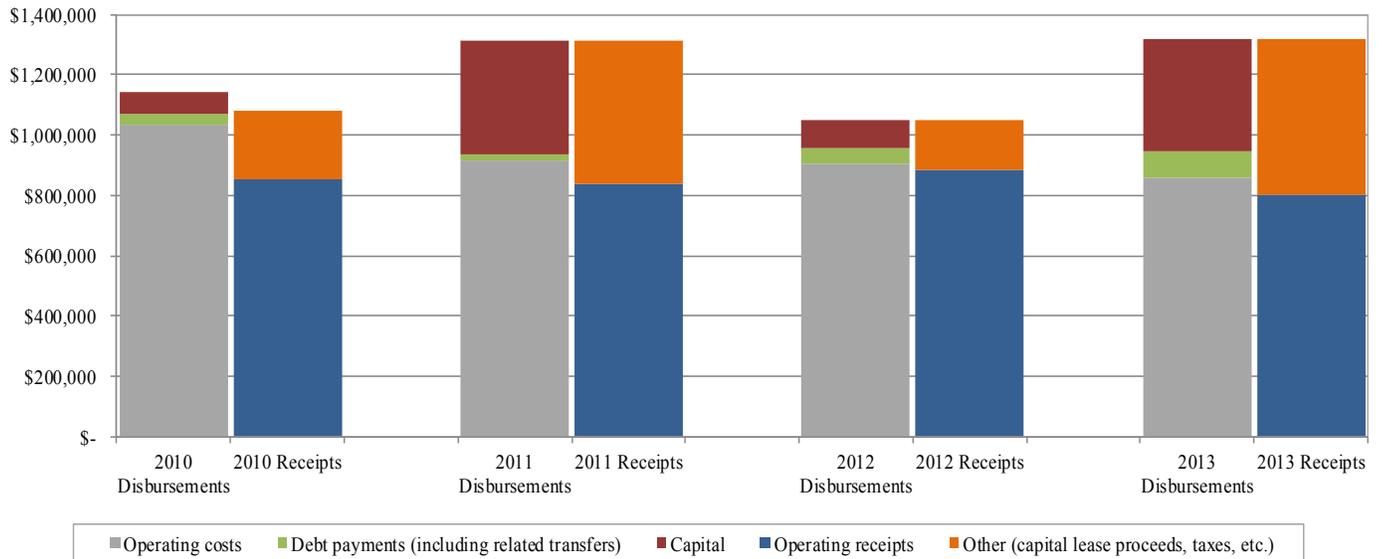
- Operating receipts (blue) were sufficient to cover operating costs (grey) in each of the prior four years. Also, with exception of 2011, operating receipts (blue) and other receipts (mainly taxes) have been sufficient to cover operating costs (grey) and debt payments (green).
- A transfer of approximately \$1,400,000 was received in 2013 from Revolving Capital fund for future capital outlay. This can be seen in the increase in unrestricted cash (blue) in the above cash balance chart.
- Receipts from customers and users increased approximately 24 percent (\$285,000) from prior year.

We recommend the City review rates annually to determine if operating revenues will cover operating costs and future projects.

Golf Course Operations

	2011		2012		2013	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 829,939	100.0 %	\$ 884,973	100.0 %	\$ 828,710	100.0 %
Operating expenses	(933,786)	(112.5)	(905,253)	(102.3)	(860,734)	(103.9)
Depreciation	(225,364)	(27.2)	(220,728)	(24.9)	(250,139)	(30.2)
Operating loss	(329,211)	(39.7)	(241,008)	(27.2)	(282,163)	(34.1)
Nonoperating						
revenues (expenses)	48,507	5.8	8,025	1	(4,668)	(0.6)
Interest expense	(4,146)	(0.5)	(12,110)	(1.4)	(13,183)	(1.6)
Loss before transfers	(284,850)	(34.4)	(245,093)	(27.7)	(300,014)	(36.3)
Transfers in	179,060	21.6	154,000	17.4	359,113	43.3
Change in fund net position	<u>\$ (105,790)</u>	<u>(12.8) %</u>	<u>\$ (91,093)</u>	<u>(10.3) %</u>	<u>\$ 59,099</u>	<u>7.0 %</u>
Cash and temporary investments	<u>\$ 1,727</u>		<u>\$ 2,886</u>		<u>\$ 4,209</u>	
Capital lease payable	<u>\$ 296,739</u>		<u>\$ 257,705</u>		<u>\$ 332,883</u>	

Golf Fund Cashflow Activity



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 \$359,113 was received in 2013 from 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 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. 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	2010	2011	2012	2013
Debt to assets	Total liabilities/total assets	Government-wide	34% <i>34%</i>	32% <i>33%</i>	24% <i>33%</i>	23% <i>N/A</i>
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	102% <i>90%</i>	120% <i>106%</i>	114% <i>106%</i>	129% <i>N/A</i>
Debt per capita	Bonded debt/population	Government-wide	\$ 6,942 <i>\$ 2,774</i>	\$ 5,712 <i>\$ 2,826</i>	\$ 4,221 <i>\$ 2,626</i>	\$ 3,821 <i>N/A</i>
Taxes per capita	Tax revenues/population	Government-wide	\$ 1,056 <i>\$ 458</i>	\$ 1,011 <i>\$ 500</i>	\$ 1,041 <i>\$ 480</i>	\$ 1,031 <i>N/A</i>
Current expenditures per capita	Governmental fund current expenditures/population	Governmental funds	\$ 801 <i>\$ 624</i>	\$ 751 <i>\$ 640</i>	\$ 760 <i>\$ 649</i>	\$ 770 <i>N/A</i>
Capital expenditures per capita	Governmental fund capital outlay/population	Governmental funds	\$ 100 <i>\$ 265</i>	\$ 351 <i>\$ 229</i>	\$ 219 <i>\$ 298</i>	\$ 477 <i>N/A</i>
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	46% <i>68%</i>	61% <i>64%</i>	58% <i>65%</i>	57% <i>N/A</i>
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	78% <i>68%</i>	76% <i>65%</i>	74% <i>63%</i>	72% <i>N/A</i>

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. 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.

GASB Statement No. 69 - *Government Combinations and Disposals of Government Operations*

Summary

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, Business Combinations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

Future Accounting Standard Changes - Continued

GASB Statement No. 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Summary

Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee may be applied prospectively.

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 consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

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.

Future Accounting Standard Changes - Continued

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.

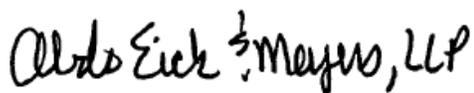
¹ Note. From GASB Pronouncements Summaries. Copyright 2014 by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is reproduced with permission.

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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
Minneapolis, Minnesota
May 7, 2014