CITY OF BECKER
BECKER, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2011

ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

CITY OF BECKER
BECKER, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2011

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

5201 Eden Avenue
Suite 250
Edina, MN 55436

April 24, 2012

Management, Honorable Mayor and 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, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Audit Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated November 7, 2011. Professional standards require that we provide you with the following information related to our audit.

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

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

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control over financial reporting of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies presented as findings 2011-1 and 2011-2 on the following pages to be a significant deficiencies in internal control over financial reporting.

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2011-1 Preparation of financial statements

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the 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.

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2011-2 Limited segregation of duties

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

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

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

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

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

Compliance

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

Planned Scope and Timing of the Audit

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

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The requirements of GASB statements No. 54 were adopted for the year ended December 31, 2011. 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.

During 2011, the City decided to change the classification of six funds. The Debt Service funds with related wastewater treatment facility bonds are now reported within the Sewer fund. The activity of the funds was incorporated into all years presented for the Sewer fund. These funds were previously presented as governmental funds in the fund financial statements and as business-type in the government-wide financial statements.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were capital asset basis, depreciation, compensated absences, other postemployment benefits, and allocation of payroll.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

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

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Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representations letter April 24, 2012**.**

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended December 31, 2011.

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 $160,362 from 2010. The fund balance of $1,187,734 is 40 percent of the 2011 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. 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 imposed reductions of market value credit aid and local government aid for some cities for 2011. Levy limits have also been implemented for municipalities in past legislative sessions. An adequate fund balance will provide a temporary buffer against those aid adjustments and levy limits.

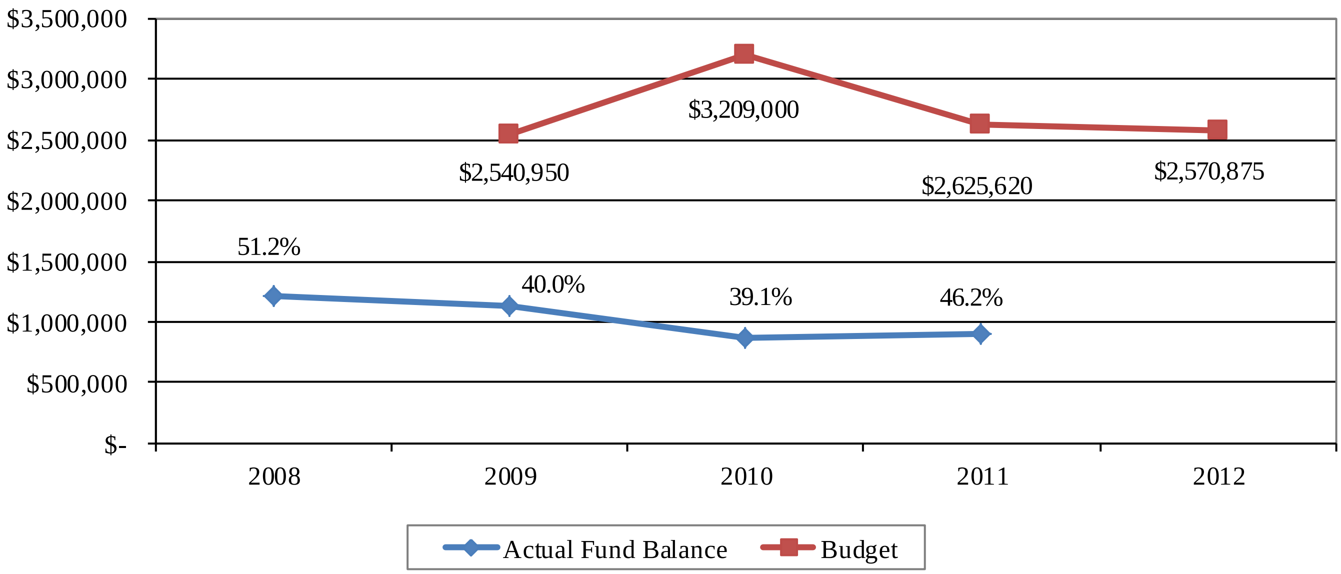
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Council action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.

- 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
2008	$ 1,214,601	$ 1,300,406	2009	$ 2,540,950	47.8 %	51.2 %
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	2,570,875	35.0	46.2

Fund Balance as a Percent of Next Year's Budget



A summary of the 2011 operations are as follows:

	Final Budget Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 2,568,120	$ 2,822,045	$ 253,925
Expenditures	2,569,220	2,560,962	8,258
Excess (deficiency) of revenues over (under) expenditures	(1,100)	261,083	262,183
Other financing sources (uses)			
Transfers in	57,500	324,467	266,967
Transfers out	(56,400)	(425,188)	(368,788)
Total other financing sources (uses)	1,100	(100,721)	(101,821)
Net change in fund balances	-	160,362	160,362
Fund balances, January 1	1,027,372	1,027,372	-
Fund balances, December 31	$ 1,027,372	$ 1,187,734	$ 160,362

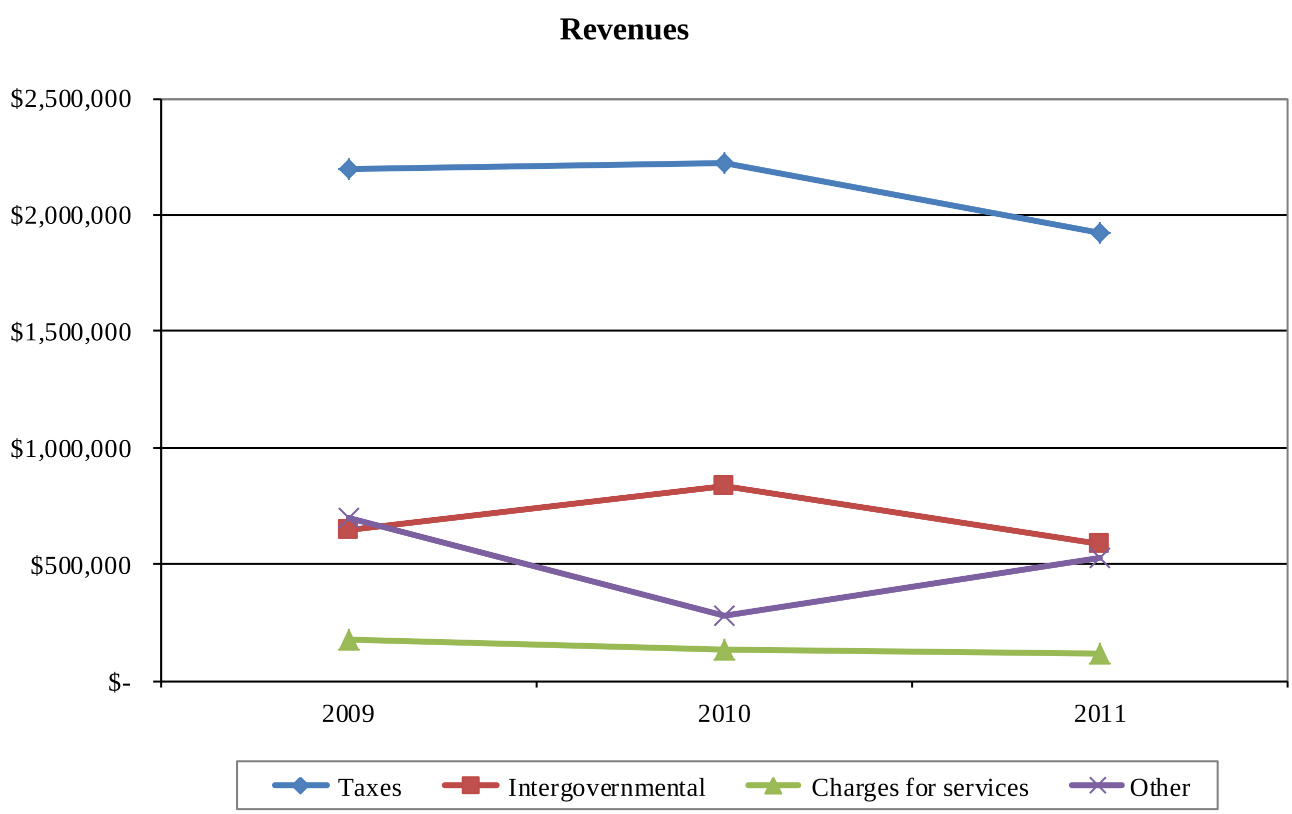
The total expenditures were under budget by $8,258. The most significant positive expenditure variance was in the general government function which was under budget by $105,323. The most significant negative variance was in public works capital outlay, which was $131,005 over budget.

The total revenues were over budget by $253,925. The majority of the variance came from taxes and intergovernmental revenue received in excess of budget by $93,160 and $65,540, respectively. An additional $73,044 was received from special assessments that was not budgeted.

A summary and comparison of 2011, 2010, and 2009 General fund revenues and transfers in are as follows:

Revenue Source	2009	2010	2011	Percent of Total	Per Capita
Taxes	$ 2,196,665	$ 2,217,888	$ 1,921,680	61.1 %	$ 423
Licenses and permits	68,260	51,199	50,353	1.6	11
Intergovernmental	650,384	837,366	585,140	18.6	129
Charges for services	172,241	129,426	113,779	3.6	25
Fines and forfeitures	49,295	11,235	15,013	0.5	3
Special assessments	173,613	57,748	73,044	2.3	16
Interest on investments	18,289	13,485	6,229	0.2	1
Miscellaneous	38,214	44,555	56,807	1.8	13
Transfers in	349,634	102,212	324,467	10.3	72
Total revenues and transfers	$ 3,716,595	$ 3,465,114	$ 3,146,512	100.0 %	$ 693

The sources of 2011, 2010, and 2009 revenues and transfers are presented graphically as follows:

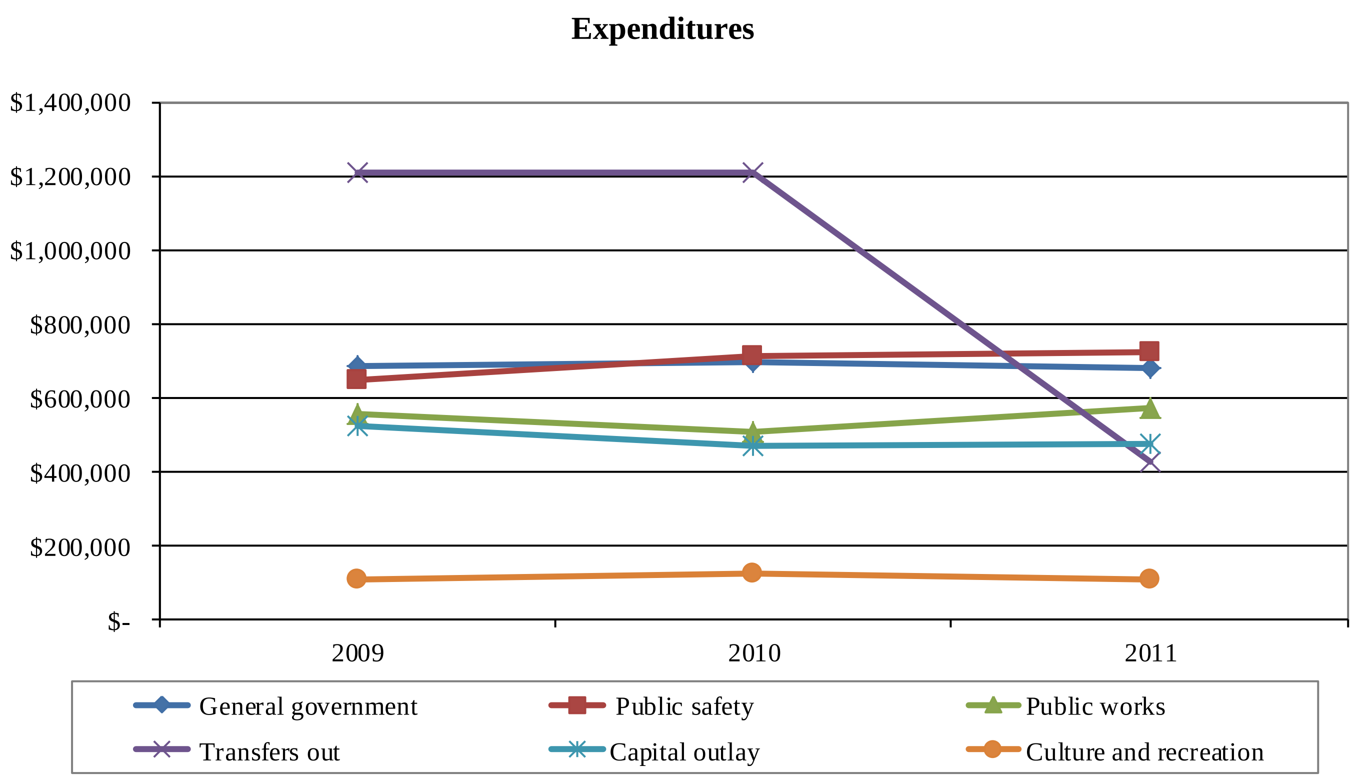


A summary and comparison of 2011, 2010, and 2009 General fund expenditures and transfers out are as follows:

Program	2009	2010	2011	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	$ 685,669	$ 697,104	$ 680,997	22.8 %	$ 150	$ 123
Public safety	647,824	711,172	722,525	24.2	159	204
Public works	557,433	506,768	571,090	19.1	126	108
Culture and recreation	110,053	124,842	111,386	3.7	25	47
Total current	2,000,979	2,039,886	2,085,998	69.8	460	482
Capital outlay	524,581	471,570	474,964	15.9	105	18
Transfers out	1,208,180	1,209,547	425,188	14.3	94	-
Total expenditures and transfers	$ 3,733,740	$ 3,721,003	$ 2,986,150	100.0 %	$ 659	$ 500

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

The 2011, 2010 and 2009 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 (deficits) of the special revenue funds were as follows at December 31, 2011 and 2010:

	Fund Balances (Deficits) December 31,		
Fund	2011	2010	Increase (Decrease)
Major			
Community Center	$ (98,497)	$ (127,458)	$ 28,961
Nonmajor			
Fire Department	1,278,124	1,124,084	154,040
Economic Development	197,538	174,822	22,716
Total	$ 1,377,165	$ 1,171,448	$ 205,717

All funds should have sufficient resources to provide for their operations but occasionally deficits will occur. The Community Center fund balance includes an increase of $28,961 from 2010, 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 Bonds, Series 2003A	$ 1,535,840	$ 1,536,949	$ 1,920,000	02/01/12
G.O. Fire Station Refunding Bonds, Series 2011A	13,345	280,903	1,335,000	02/01/19
G.O. Improvement Bonds, Series 2010A	5,579	1,434,437	1,860,000	02/01/26
G.O. TIF Financing Bonds, Series 1994D	3,508,374	3,508,515	8,355,000	08/01/15
Total G.O. Bonds	$ 5,063,138	$ 6,760,804	$ 13,470,000	

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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, 2011 and 2010:

Fund	Fund Balances December 31, 2011	Fund Balances December 31, 2010	Increase (Decrease)
Major			
Revolving Capital	$ 8,911,133	$ 8,821,804	$ 89,329
2011 Industrial Park Street and Utility Improvement	744,299	1,794,652	(1,050,353)
Nonmajor			
Trunk Facilities	879,231	893,160	(13,929)
Fossum Fields Road Pedestrian Path	41,308	39,804	1,504
County Road 67 Improvement	-	(455)	455
Total	$ 10,575,971	$ 11,548,965	$ (972,994)

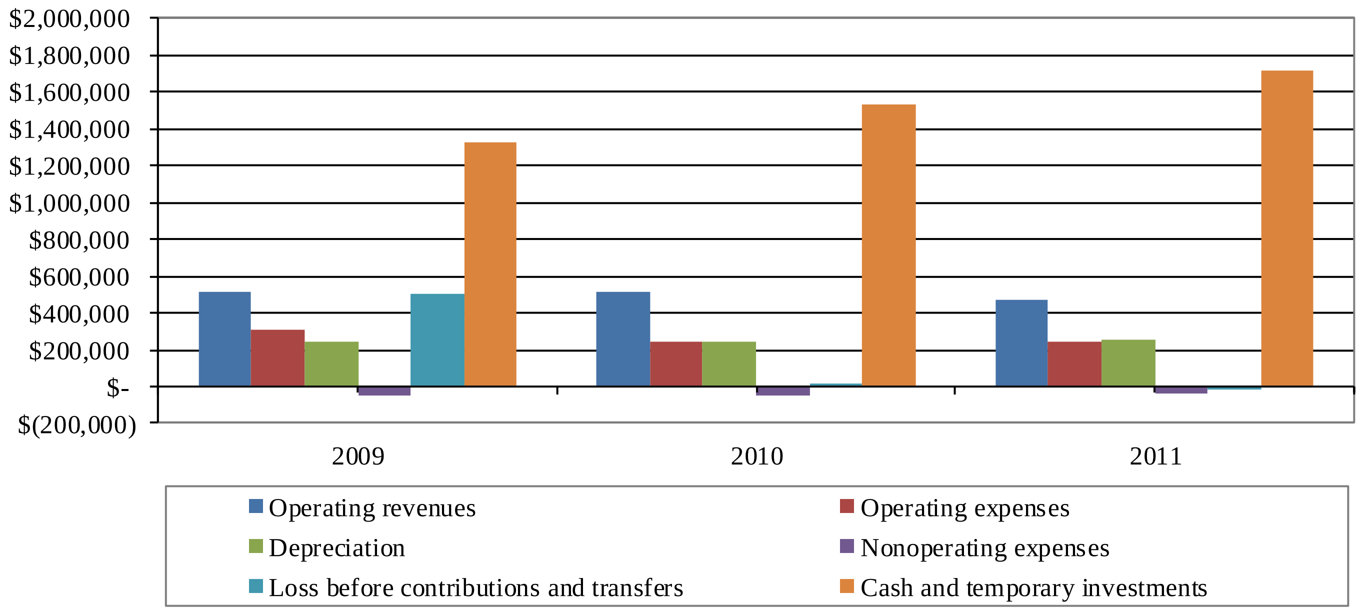
The City has done well monitoring the status of outstanding capital project funds, identifying financing to eliminate deficits and closing those that are complete. We recommend the City continue to evaluate the status of each fund annually.

Proprietary Funds

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

Water Fund Operations

	2009		2010		2011	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 509,465	100.0 %	$ 515,880	100.0 %	$ 474,719	100.0 %
Operating expenses	(303,190)	(59.5)	(248,778)	(48.2)	(244,803)	(51.6)
Depreciation	(241,168)	(47.3)	(242,205)	(46.9)	(252,928)	(53.3)
Operating income (loss)	(34,893)	(6.8)	24,897	4.9	(23,012)	(4.9)
Nonoperating expenses	24,136	4.7	-	-	-	-
Interest expense	(52,931)	(10.4)	(49,120)	(9.5)	(34,354)	(7.2)
Loss before contributions and transfers	(63,688)	(12.5)	(24,223)	(4.6)	(57,366)	(12.1)
Contributed assets	550,080	108.0	-	-	-	-
Transfers in	40,938	8.0	40,000	7.8	40,000	8.4
Transfers out	(23,857)	(4.7)	(2,089)	(0.4)	-	-
Change in fund net assets	$ 503,473	98.8 %	$ 13,688	2.8 %	$ (17,366)	(3.7) %
Cash and temporary investments						
Unrestricted	$ 967,116		$ 1,191,586		$ 1,396,240	
Restricted	$ 361,579		$ 342,455		$ 325,026	



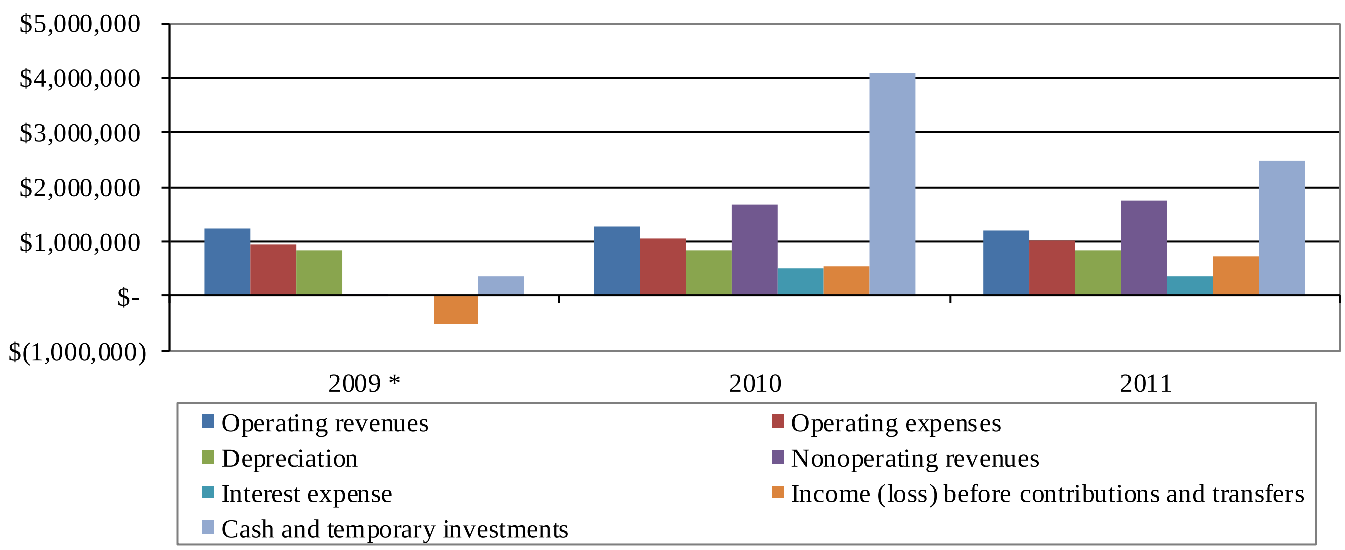
The cash balance is at a level sufficient to provide for working capital and other needs. The fund recorded an operating loss as operating revenues decreased from prior year. The cash balance remains strong in relation to operations; however, it is important to review cash flow each year to determine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

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

Sewer Fund Operations

	2009 *		2010		2011	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 1,239,766	100.0 %	$ 1,267,296	100.0 %	$ 1,191,733	100.0 %
Operating expenses	(954,964)	(77.0)	(1,047,965)	(82.7)	(1,020,124)	(85.6)
Depreciation	(821,121)	(66.2)	(818,946)	(64.6)	(823,085)	(69.1)
Operating loss	(536,319)	(43.2)	(599,615)	(47.3)	(651,476)	(54.7)
Nonoperating revenues	6,903	0.6	1,673,798	132.1	1,754,882	147.3
Interest expense	-	-	(514,884)	(40.6)	(373,966)	(31.4)
Income (loss) before contributions and transfers	(529,416)	(42.6)	559,299	44.2	729,440	61.2
Contributed assets	480,696	38.8	-	-	-	-
Transfers in	236	-	101,875	8.0	20,686	1.7
Transfers out	(202,994)	(16.4)	(208,475)	(16.5)	(229,602)	(19.3)
Change in fund net assets	$ (251,478)	(20.2) %	$ 452,699	35.7 %	$ 520,524	43.6 %
Cash and temporary investments						
Unrestricted	$ 343,751		$ 310,892		$ 290,021	
Restricted	$ -		$ 3,780,417		$ 2,176,597	
Bonds payable	$ -		$ 14,320,000		$ 11,360,000	

* 2009 figures do not include adjustment to account for reclassification of Debt Service funds in 2011.

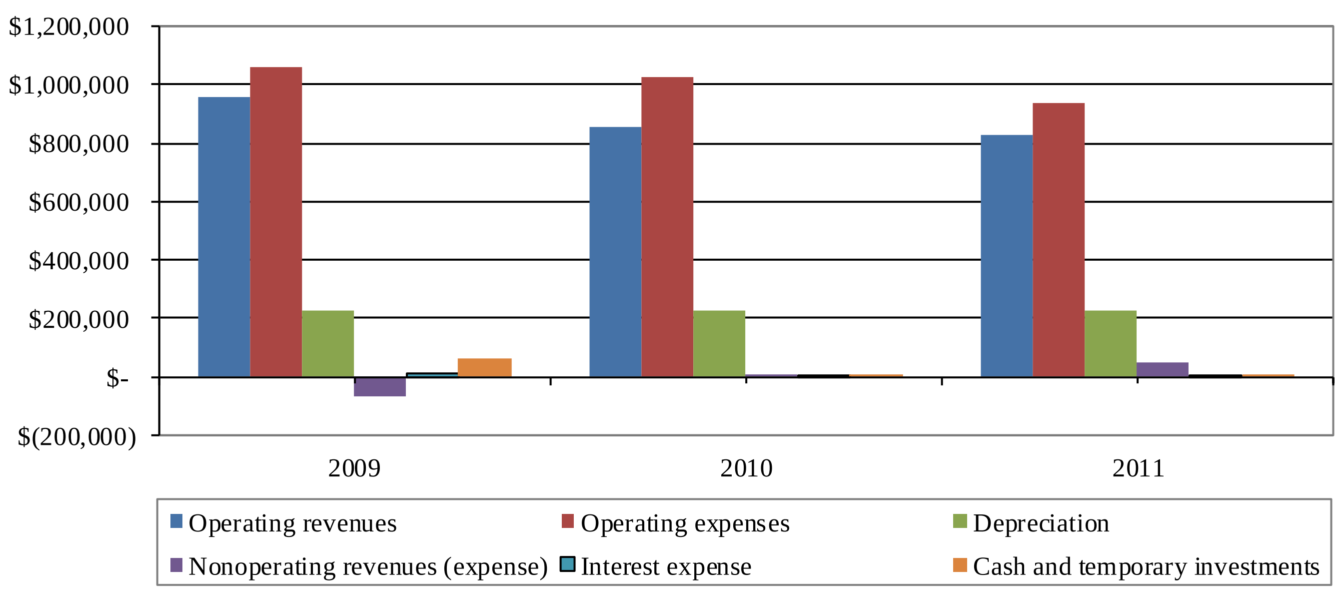


In 2011, the Sewer fund's net assets increased by $520,524. The increase in net assets was due to nonoperating revenue of $1,754,882. The majority of nonoperating revenue was from taxes. Although there has been three consecutive years of operating losses, the City has had adequate cash flow to support its needs in the past and is expected to remain sufficient. The cash decrease from 2010 to 2011 was due to refunding bond proceeds included in the 2010 balance.

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

Golf Course Operations

	2009		2010		2011	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 955,798	100.0 %	$ 851,863	100.0 %	$ 829,939	100.0 %
Operating expenses	(1,061,797)	(111.1)	(1,027,493)	(120.6)	(933,786)	(112.5)
Depreciation	(229,506)	(24.0)	(226,749)	(26.6)	(225,364)	(27.2)
Operating loss	(335,505)	(35.1)	(402,379)	(47.2)	(329,211)	(39.7)
Nonoperating revenues (expenses)	(69,081)	(7.2)	17	-	48,507	5.8
Interest expense	(8,129)	(0.9)	(7,051)	(0.8)	(4,146)	(0.5)
Loss before transfers	(412,715)	(43.2)	(409,413)	(48.0)	(284,850)	(34.4)
Transfers in	158,051	16.5	222,903	26.2	179,060	21.6
Change in fund net assets	$ (254,664)	(26.7) %	$ (186,510)	(21.8) %	$ (105,790)	(12.8) %
Cash and temporary investments	$ 63,764		$ 1,000		$ 1,727	
Capital lease payable	$ 174,645		$ 148,951		$ 296,739	



The Golf Course continues to operate at a loss. The City should continue to monitor rates by completing annual cash flow projections. The City has transferred funds in from the revolving capital fund to keep the cash balance positive. The funds in the revolving capital fund are from the sale of lots around the course a number of years ago. If transfers continue at the rate of the previous few years, the funds remaining from the lot sales will be exhausted by the end of 2013.

City Obligation to the Firefighter's Relief Association

The Council approves the Association's per year of service benefit level. The benefit level is currently $2,900 per year of active service. As the Council approves the retirement benefit level, the City is ultimately liable to provide these pension funds if the assets of the Association are not sufficient. In the annual report, the Association's liabilities exceeded their assets as follows:

	Required Supplementary Information				
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Benefit per Year of Service
12/31/11	*	*	*	*	$ 2,900
12/31/10	$ 902,024	$ 867,202	$ (34,822)	104.0 %	2,900
12/31/09	828,565	857,922	29,357	96.6	2,900

* Unavailable at time of audit

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Ratio Analysis

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

Ratio	Calculation	Source	2010	2011
Debt to assets	Total liabilities/total assets	Government-wide	34% *37%*	32% *N/A*
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	102% *102%*	120% *N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 6,942 *$ 3,125*	$ 5,712 *N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 1,056 *$ 407*	$ 1,011 *N/A*
Current expenditures per capita	Governmental fund current expenditures/population	Governmental funds	$ 801 *$ 624*	$ 751 *N/A*
Capital expenditures per capita	Governmental fund capital outlay/population	Governmental funds	$ 100 *$ 265*	$ 351 *N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	46% *61%*	61% *N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	78% *59%*	76% *N/A*

Represents the City of Becker
Peer Group ratio

Debt-to-Assets Leverage Ratio (Solvency Ratio)

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

Debt Service Coverage Ratio (Solvency Ratio)

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

Bonded Debt per Capita (Funding Ratio)

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

Taxes per Capita (Funding Ratio)

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

Current Expenditures per Capita (Funding Ratio)

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

Capital Expenditures per Capita (Funding Ratio)

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

Capital Assets Percentage (Common-size Ratio)

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

Future Accounting Standard Changes

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

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements*

Summary

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement also provides guidance for governments that are operators in a service concession arrangement.

This Statement requires disclosures about a service concession arrangement including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*

Summary

The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14 and the related financial reporting requirements of Statement No. 34, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances.

This Statement clarifies the reporting of equity interests in legally separate organizations as well. It requires a primary government to report its equity interest in a component unit as an asset.

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

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

Future Accounting Standard Changes - Continued

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

Summary

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

Summary

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

Future Accounting Standard Changes - Continued

GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53*

Summary

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced.

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This report is intended solely for the information and use of City, management, others within the City and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

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

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

Abdo, Eick & Meyers, LLP

April 24, 2012
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants