

**City of Becker  
Sherburne County, Minnesota**

**Communications Letter**

**December 31, 2018**

**bergankDV**

**City of Becker  
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## Report on Matters Identified as a Result of the Audit of the Financial Statements

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

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Becker, Minnesota, as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be 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 a combination of deficiencies, in internal control over financial reporting, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: reasonably possible – the chance of the future event or events occurring is more than remote but less than likely; probable – the future event or events are likely to occur. The material weakness identified is stated within this letter.

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. The significant deficiency identified is stated within this letter.

During our audit, we also became aware of a deficiency in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency. It is described in the accompanying letter under Other Deficiency

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated April 18, 2019, on such statements.

This communication is intended solely for the information and use of the City Council, management, others within the City and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*BergankDV, Ltd.*

St. Cloud, Minnesota  
April 18, 2019

**City of Becker**  
**Material Weakness**

**PRIOR PERIOD ADJUSTMENTS**

We proposed a number of audit adjustments that we considered both individually and in the aggregate, to be quantitatively material to the financial statements. This condition could adversely affect the City's ability to present financial statements that are free of material misstatements. The audit adjustments we proposed that were material to the financial statements were related to prior year adjustments. A prior period adjustment was made to increase beginning fund balance in the General Fund related to accounts receivable not recorded at December 31, 2017. A prior period adjustment was made to decrease beginning fund balance in the Community Center Fund related to unearned revenue for membership fees not recorded at December 31, 2017. A prior period adjustment was made to increase beginning net position in the Sewer Fund related to a note receivable for future debt service payments not recorded at December 31, 2017.

**City of Becker**  
**Significant Deficiency**

**LACK OF SEGREGATION OF ACCOUNTING DUTIES**

During the year ended December 31, 2018, the City had a lack of segregation of accounting duties due to a limited number of office employees. This lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- Cash is collected and deposited by the same person.
- The bank reconciliation is not reviewed by anyone after it is prepared by the Finance Director. Monthly receipts, electronic payments, cancelled checks, and bank/investment account transfers are sampled and tested by the City Clerk to mitigate this risk.
- The Finance Director prepares and enters all journal entries without review or approval by another employee. We noted that 2018 closing journal entries were reviewed, and the City has updated its internal control procedures so all journal entries will be reviewed in the future.
- The Fire Board Secretary is solely responsible for all receipts, invoices, and other activity for the Fire Board.

We recommend segregation or independent review be implemented whenever practical and cost effective.

**City of Becker  
Other Deficiency**

**IMPROVE GOLF COURSE RECEIPTING INTERNAL CONTROLS**

During our audit, we reviewed the golf course receipts collection process. We noted several instances where the credit card sales per the point of sale reports differed from the amounts wired into the City's bank account. Although differences were not significant, we recommend the City implement additional oversight procedures and segregate golf receipting duties where possible, as well as investigate the differences to ensure amounts receipted into the City's bank account are accurate and complete.

**City of Becker**  
**Required Communication**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2018. Professional standards require that we advise you of the following matters related to our audit.

**OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT**

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

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**PLANNED SCOPE AND TIMING OF THE AUDIT**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City.

**City of Becker  
Required Communication**

**COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE**

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

**QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES**

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2018. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The City is currently depreciating its capital assets over the estimated useful lives, as determined by management, using the straight-line method.

Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits, and supplies.

Net Pension Liability, Deferred Outflows of Resources Relating to Pensions, and Deferred Inflows of Resources relating to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

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

The financial statement disclosures are neutral, consistent, and clear.

**SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**City of Becker  
Required Communication**

**UNCORRECTED AND CORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. We identified the following uncorrected misstatement of the financial statements. Management has determined its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Golf Course inventory is projected to be understated based on test count differences.

The following material misstatements detected as a result of audit procedures was corrected by management.

- A prior period adjustment was made to increase beginning fund balance in the General Fund related to accounts receivable not recorded at December 31, 2017.
- A prior period adjustment was made to decrease beginning fund balance in the Community Center Fund related to unearned revenue for membership fees not recorded at December 31, 2017.
- A prior period adjustment was made to increase net position in the Sewer Fund related to a note receivable related to future debt service payments not recorded in previous years.

**DISAGREEMENTS WITH MANAGEMENT**

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

**REPRESENTATIONS REQUESTED FROM MANAGEMENT**

We requested certain written representations from management, which are included in the management representation letter.

**MANAGEMENT'S CONSULTATIONS WITH OTHER ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**City of Becker  
Required Communication**

**OTHER SIGNIFICANT MATTERS, FINDINGS, OR ISSUES**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the City, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

**OTHER MATTERS**

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

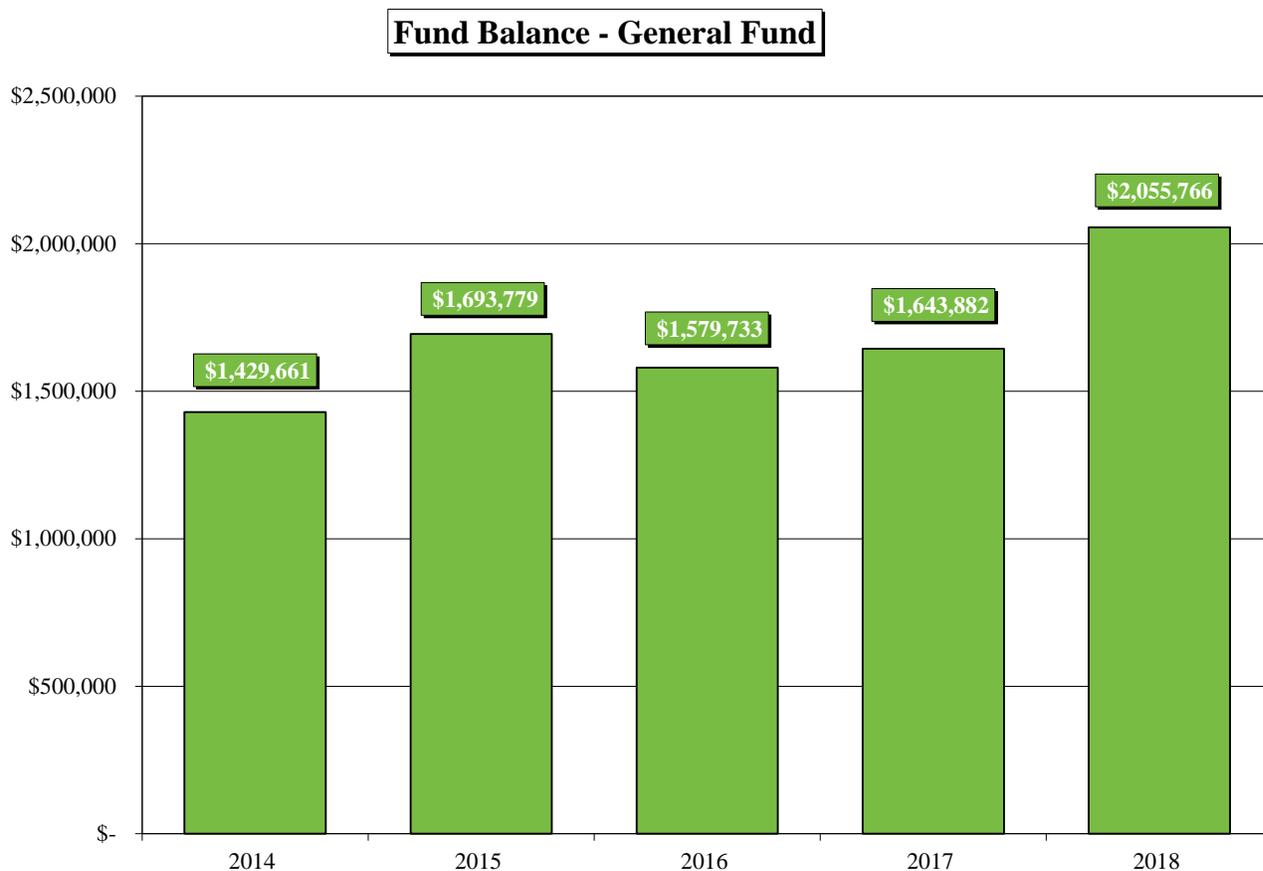
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United 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.

## City of Becker Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

### GENERAL FUND

The General Fund balance increased \$411,884 from 2017 to 2018. This is a result of revenues exceeding expenditures by \$341,884 as well as a prior period adjustment of \$70,000 to record ash user fees receivable at year-end.



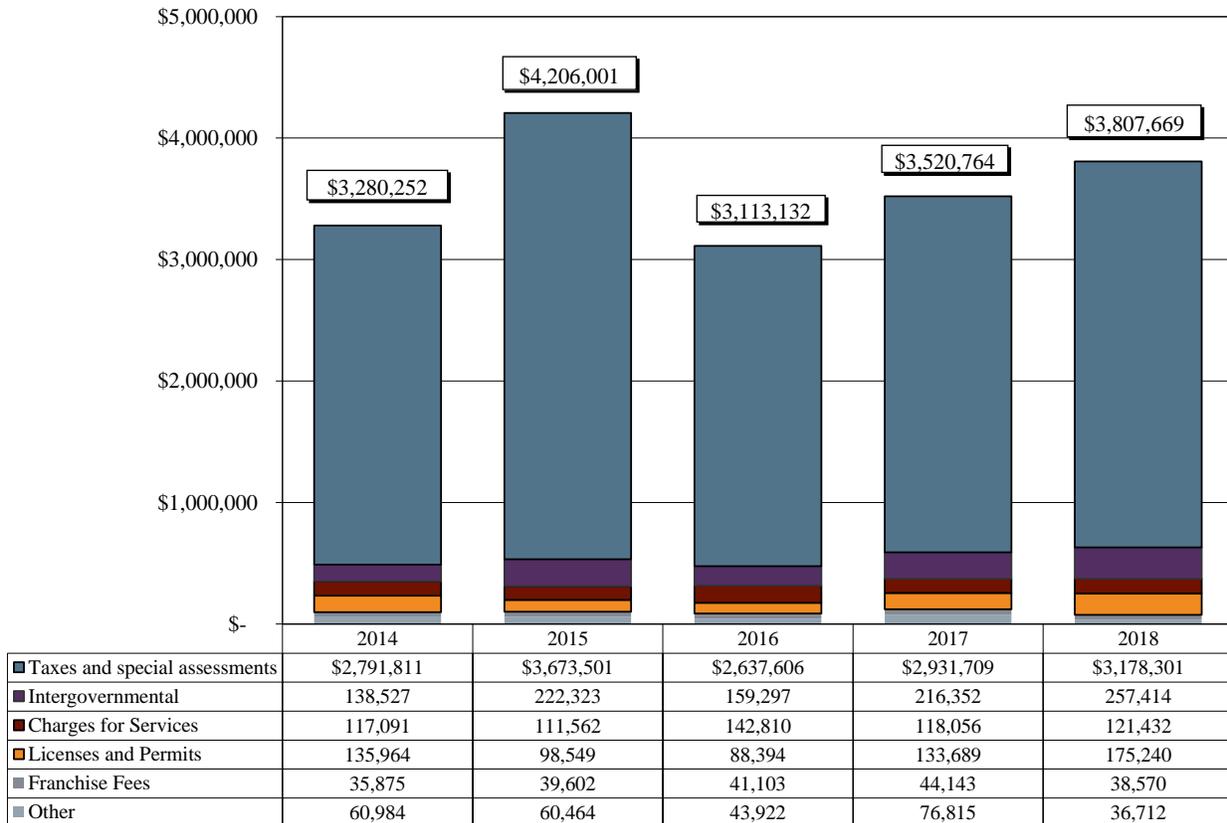
The majority of the City's total fund balance, \$2,035,839, is unassigned at year-end, while \$19,927 has already been spent on prepaid items, so it is classified as nonspendable.

## City of Becker Financial Analysis

### GENERAL FUND REVENUES

The chart below shows the City's revenues by source for the last five years.

**General Fund Revenues**



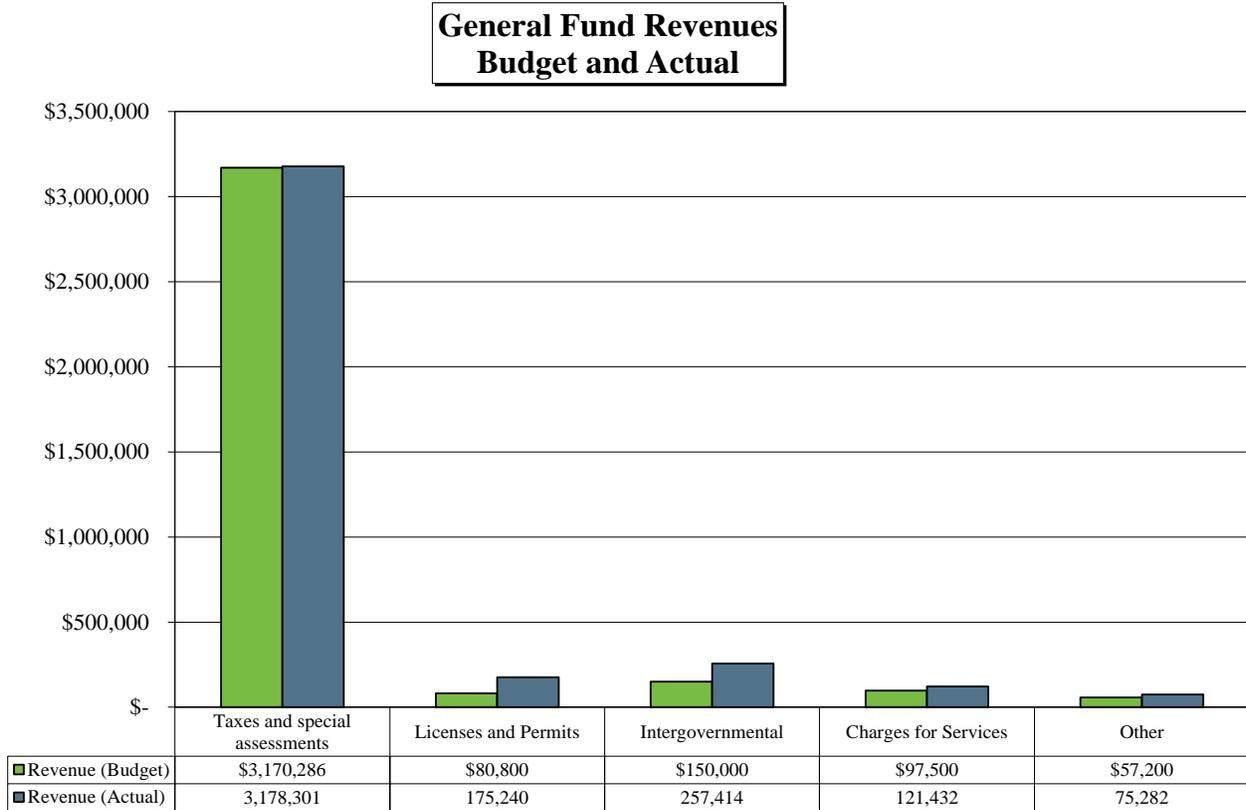
In total, revenues increased \$286,905 or 8.1%, from 2017 to 2018.

Taxes and special assessments reported the largest increase from 2017, increasing \$246,592 as a result of an increase in the General Fund's share of the tax levy. Licenses and permits increased by \$41,551 due to an increase in building permits; and development. Intergovernmental revenues increased \$41,062 primarily due to an increase in fire relief aid, which is passed through to the Relief Association. These increases were partially offset by a decrease in other revenue due to more seizures in 2017 than in 2018.

**City of Becker  
Financial Analysis**

**GENERAL FUND REVENUES (CONTINUED)**

The graph below presents a comparison of final budget and actual results for General Fund revenues.



Total General Fund revenue, including other financing source items, exceeded the final revised budget by \$251,883 or 7.1%.

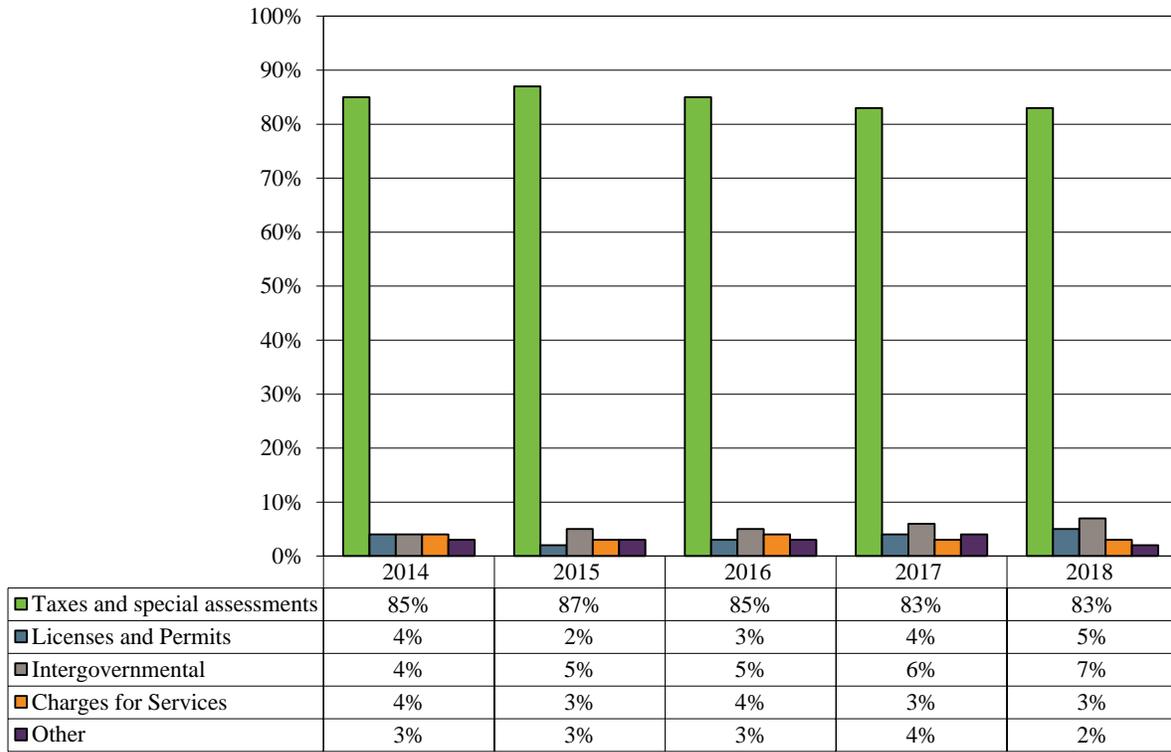
The greatest variances were in licenses and permits where actual revenue was \$94,440 over budget due to conservative budgeting for building permits, and intergovernmental revenues, which were over budget \$107,414 due to conservative budgeting across almost all aids. All other categories were fairly consistent with budgeted amounts.

## City of Becker Financial Analysis

### GENERAL FUND REVENUES (CONTINUED)

Allocations of the City's revenues by source for the past five years are displayed below.

**General Fund Revenues by Source**



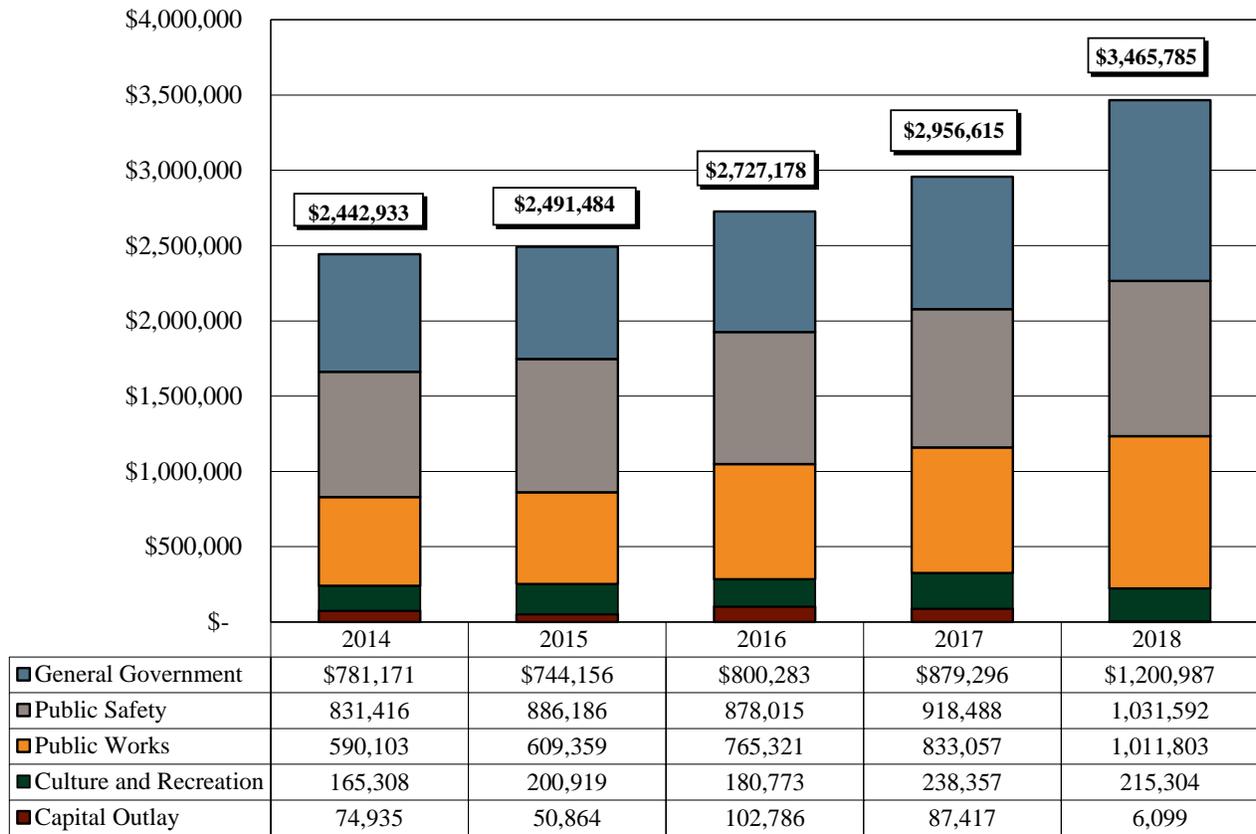
For the five years presented, the allocation of General Fund revenues has been fairly consistent among the various categories.

**City of Becker  
Financial Analysis**

**GENERAL FUND EXPENDITURES**

The chart below shows the City's expenditures by function for the last five years.

**General Fund Expenditures**



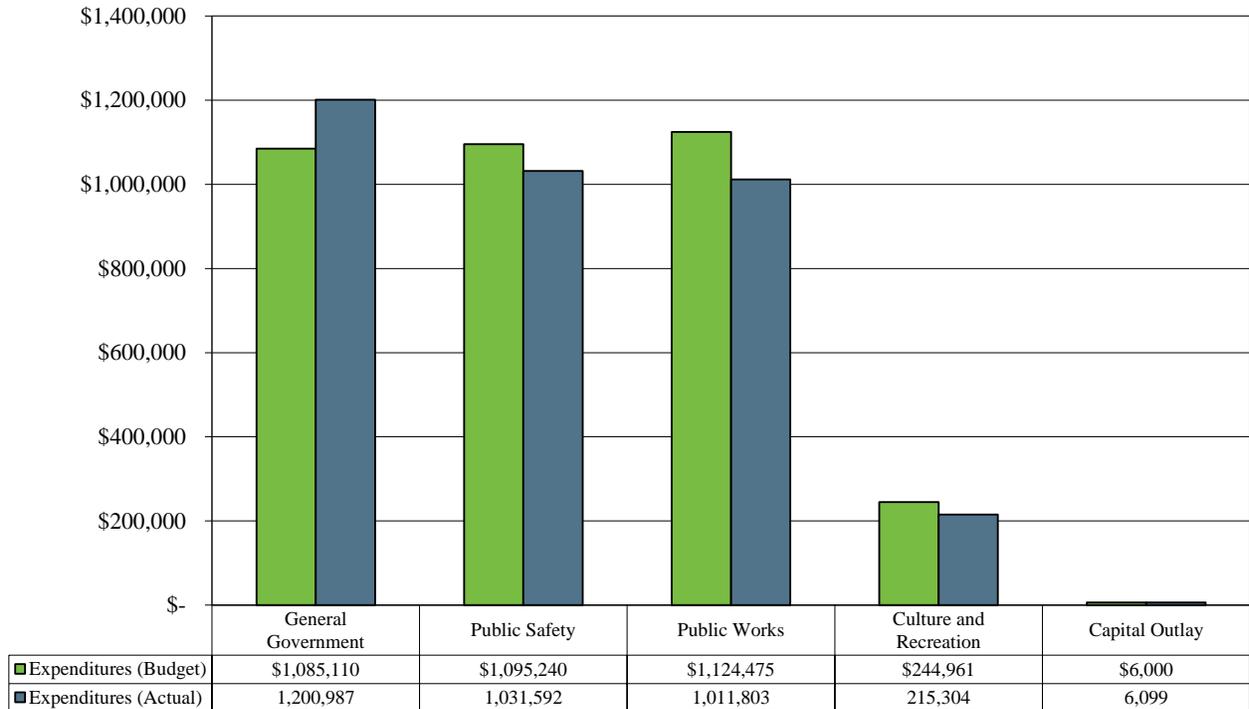
The most significant increase in expenditures was the general government category, which increased \$321,691 due to an increase in contracted planning services with hiring an external company in 2018, increased engineering fees, and also the completion of an organizational structure study in 2018. Public Safety expenditures increased \$113,104 due an increase in wages under a new contract. Public works expenditures increased \$178,746 due to wage increases as well as increased repairs and maintenance costs in 2018. Capital outlay expenditures decreased \$81,318 from 2017 to 2018 due to the City using the Revolving Capital Fund for most capital purchases in 2018.

**City of Becker  
Financial Analysis**

**GENERAL FUND EXPENDITURES (CONTINUED)**

The graph below presents a comparison of final budget and actual results for General Fund expenditures.

**General Fund Expenditures  
Budget and Actual**



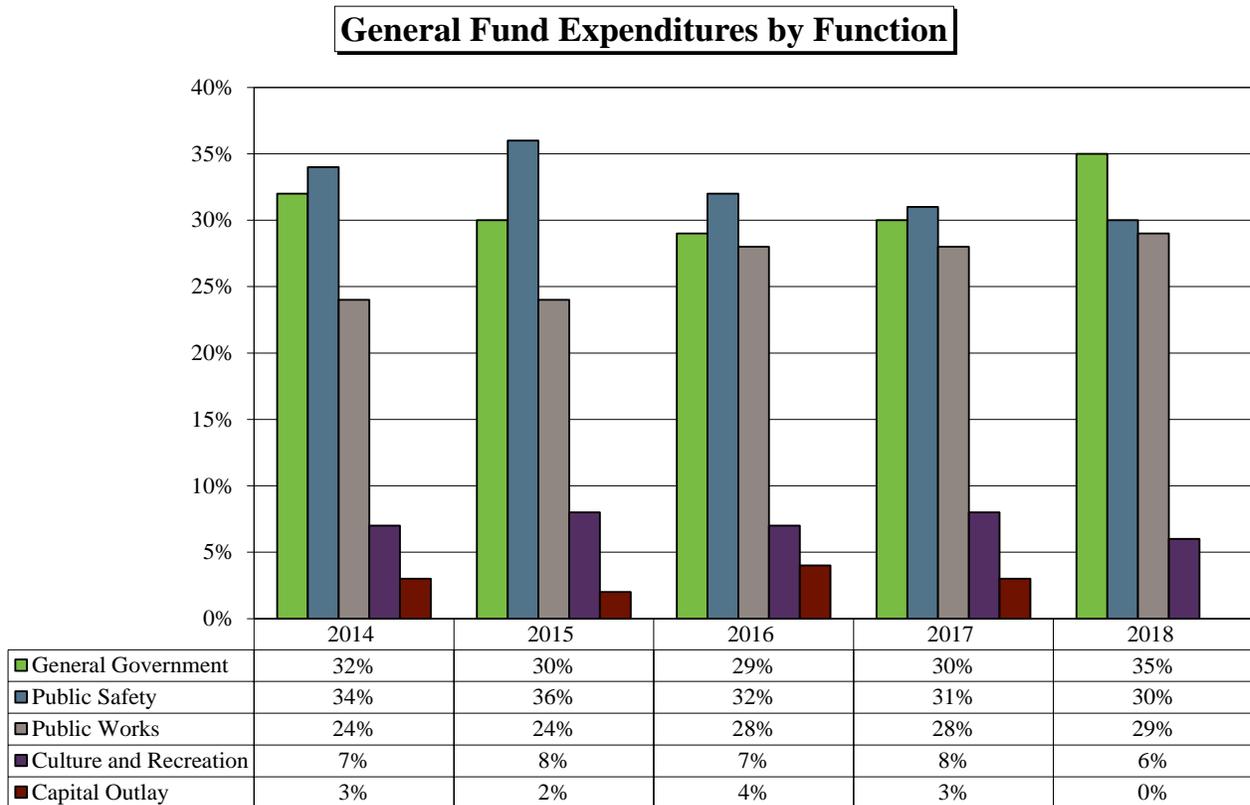
Overall, total expenditures were \$90,001, or 2.5%, under the budgeted amounts. All categories other than general government were under the budgeted amount.

General government expenditures were \$115,877 overbudget due to the organization structure study not being included in the budget, as well as the contracted planning services discussed on the previous page. Public safety expenditures were \$63,648 under budget due to budgeting conservatively for the new police contract increases. Public work expenditures were \$112,672 under budget due to lower fuel prices than budgeted and unfilled positions during the year. Other categories were fairly consistent with the budget.

## City of Becker Financial Analysis

### GENERAL FUND EXPENDITURES (CONTINUED)

Allocations of the City's General Fund expenditures by function for the past five years are displayed below.

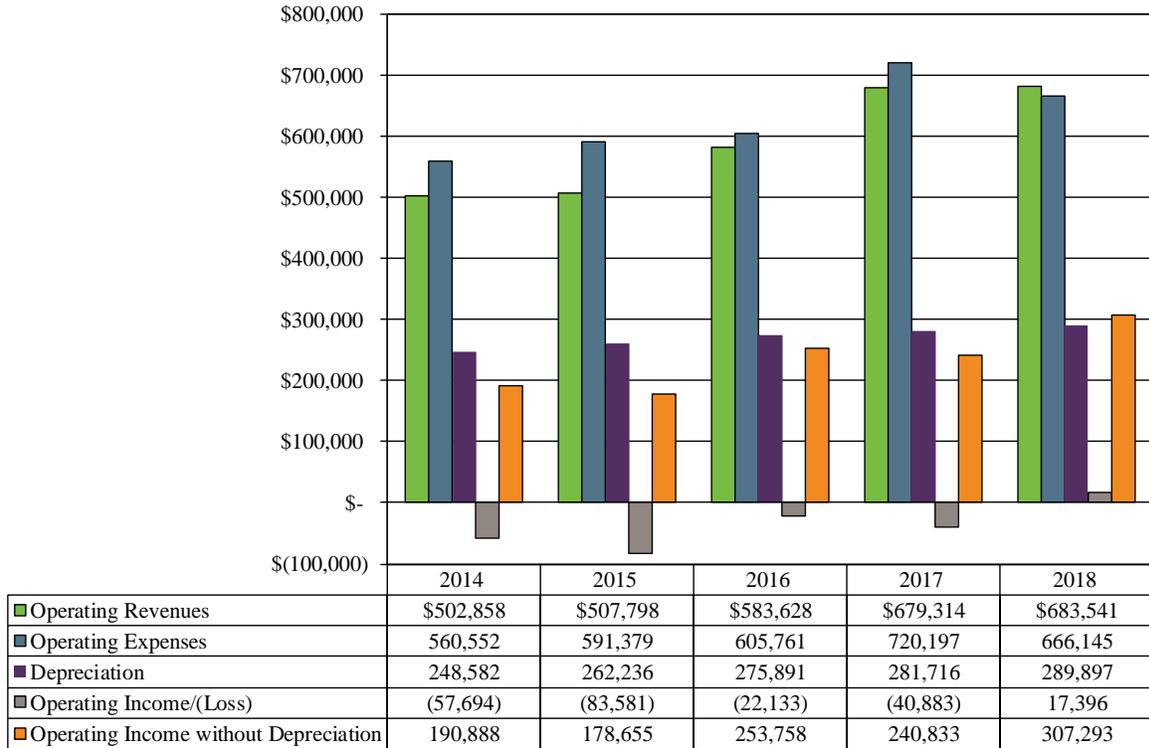


For the past five years, the City has had a fairly consistent approach to allocating spending across City departments and functions. In 2018, the City's spending the general government program increased due to increases for planning fees, engineering fees, and the organization structure study, as noted earlier.

**City of Becker  
Financial Analysis**

**WATER UTILITY OPERATION**

**Water Fund**

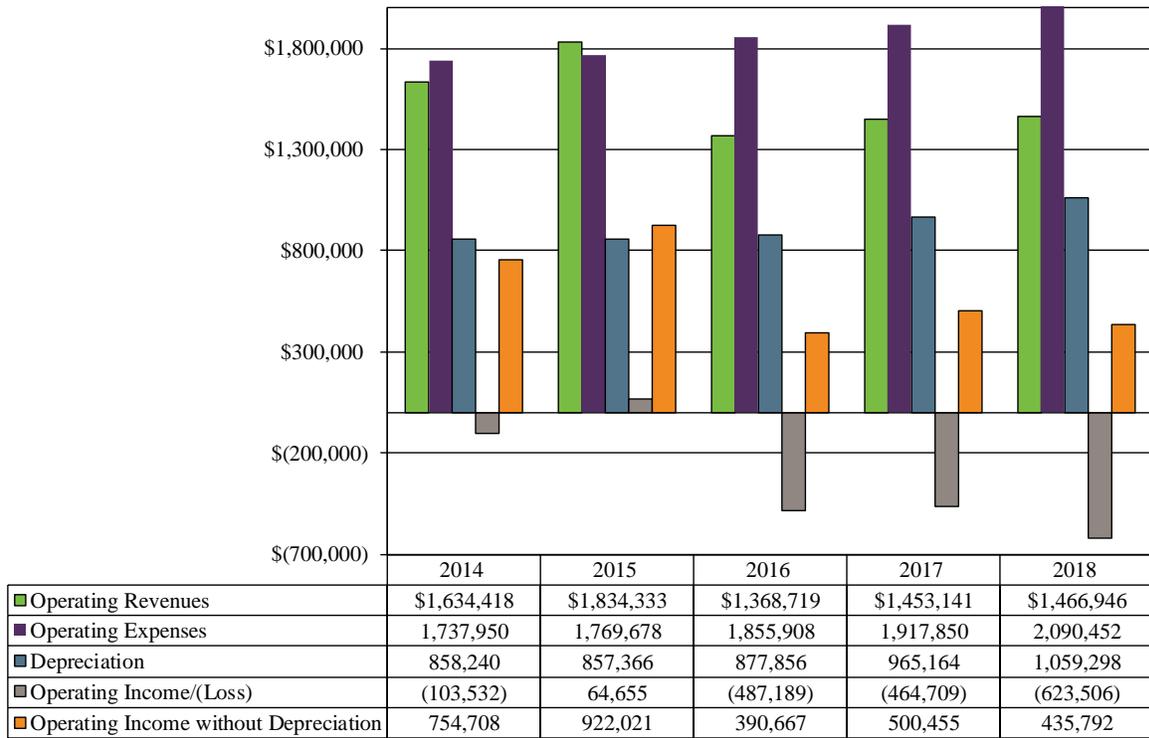


During 2018, the Water Fund revenues stayed consistent, increasing just \$4,227, or 0.6%. Operating expenses decreased \$54,052 due to a decrease in pension expense relate to the total state plan pension liability decreasing. The Fund experienced a net operating income of \$17,396 in 2018. The chart above indicates that the fund has covered operating expenses excluding depreciation in all five years presented, and all operating expense including depreciation for 2018. We recommend that the City continue to monitor utility rates to ensure the fund sustained.

**City of Becker  
Financial Analysis**

**SEWER UTILITY OPERATION**

**Sewer Fund**

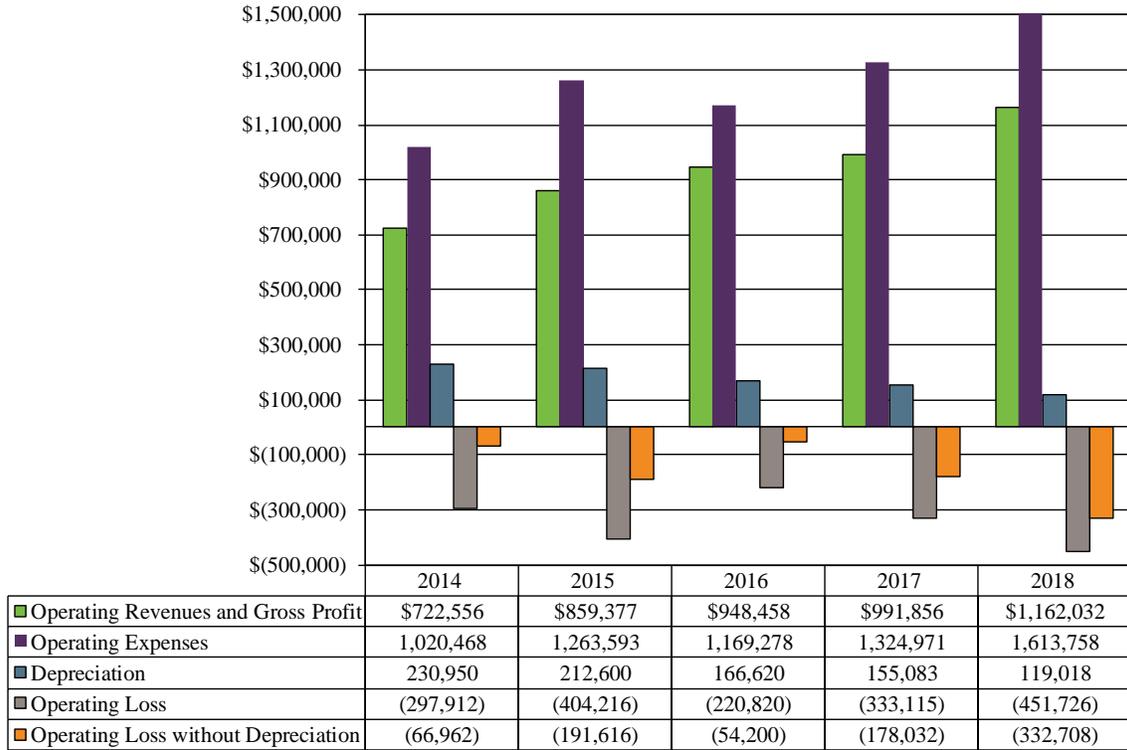


During 2018, the Sewer Fund revenues remained consistent, increasing just \$13,805, or 0.9%. Operating expenses increased \$94,134 due to increases in supplies and professional service fees, as well as increased utility costs related to the new system installed in 2018. Overall, the Fund experienced a net operating loss of \$623,506. Without depreciation the Fund reported \$435,792 of operating income. The chart above indicates that the fund has covered operating expenses excluding depreciation in all five year presented. We recommend that the City continue to monitor utility rates to ensure the fund is sustained.

**City of Becker  
Financial Analysis**

**GOLF COURSE OPERATIONS**

**Golf Course Fund**

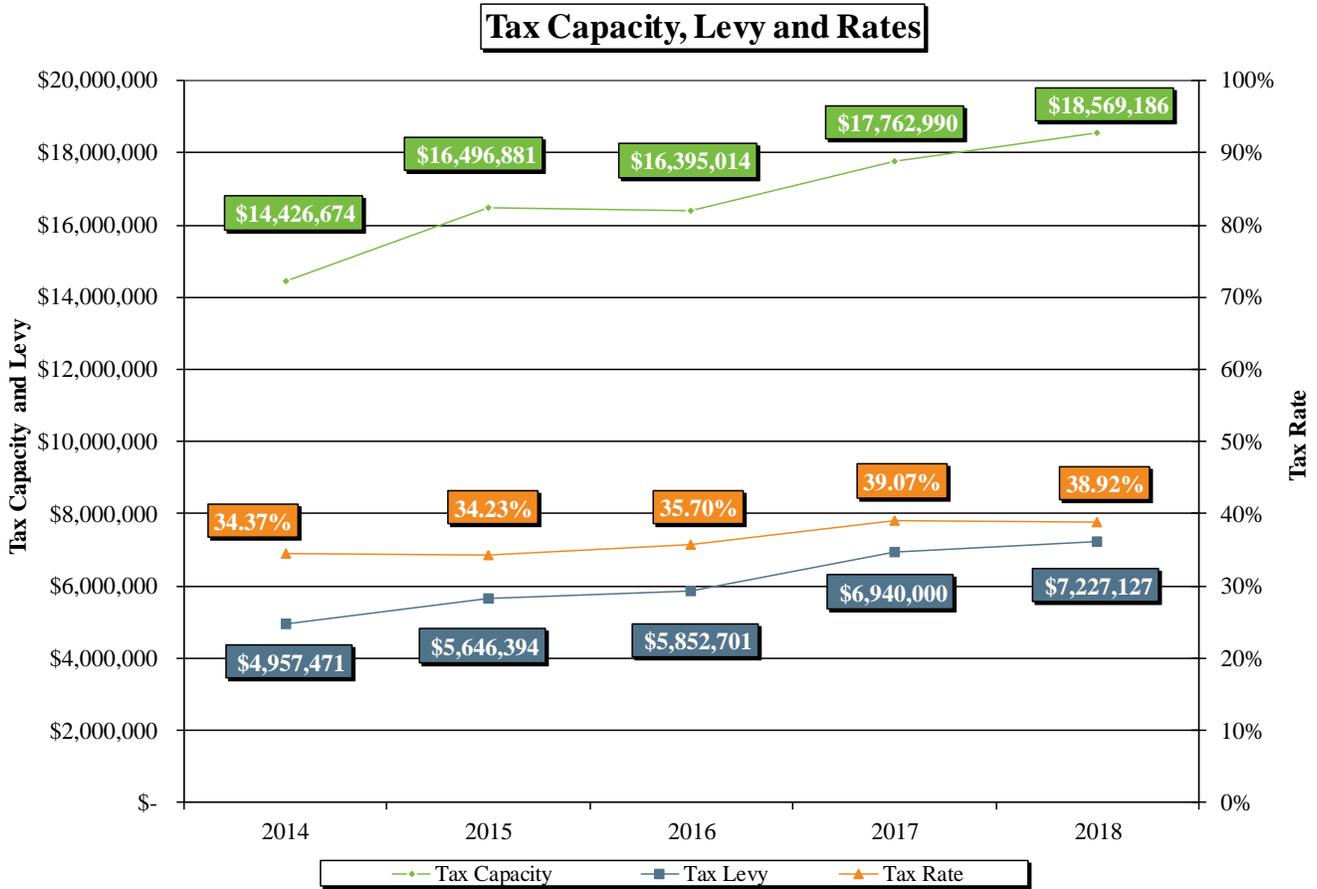


The Golf Course Fund revenue increased from the prior year due to the restaurant being open year-round in 2018. Operating expenses increased primarily due to increased wages and food costs also due to the restaurant being open year-round. The Golf Course experienced an operating loss without depreciation of \$332,708 and an operating loss with depreciation of \$451,726. The Golf Course has experienced an operating loss in all five years presented and will be presented as a Special Revenue Fund in 2019.

## City of Becker Financial Analysis

### TAX CAPACITY, LEVY AND RATES

The chart below depicts tax capacity, tax levy, and tax rate information for the City. The City's tax capacity has increased over the past five years as has the tax levy, resulting in a slight increase to the tax rate overall.



Tax rates obtained from Sherburne County Property Records and Taxpayer Services.

## **City of Becker Emerging Issue**

### **Executive Summary**

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your City.

### **ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – LEASES**

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

**City of Becker  
Emerging Issue**

**ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – LEASES  
(CONTINUED)**

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).