

**City of Becker
Sherburne County, Minnesota**

Communications Letter

December 31, 2019



**City of Becker
Table of Contents**

Report on Matters Identified as a Result of the Audit of the Financial Statements	1
Material Weakness	3
Significant Deficiency	4
Required Communication	5
Financial Analysis	9
Emerging Issue	19

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, 2019, 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 a material weakness and 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 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:

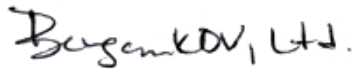
- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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.

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 22, 2020, 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.



St. Cloud, Minnesota
April 22, 2020

City of Becker
Material Weakness

Prior Period Adjustment

We proposed an audit adjustment that we considered 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. A prior period adjustment was made to increase beginning fund balance in the Fire Department Fund related to accounts receivable for township fire service contracts that was not recorded at December 31, 2018.

Invoicing and payment collection were completed more timely in 2019 and all 2019 township fire service contract fees were collected prior to December 31, 2019.

City of Becker
Significant Deficiency

Lack of Segregation of Accounting Duties

During the year ended December 31, 2019, 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 area, which is not intended to be an all-inclusive list:

- The same person serving the Fire Board is responsible for collecting the mail, approving accounts payable, and, in some cases, acting as a signatory on direct payments.

We recommend segregation or independent review be implemented whenever practical and cost effective. A strong control action that could be taken to address this deficiency would be to separate the responsibility for the collection and distribution of the mail and any accounts payable invoices from the approval for payment or signatory responsibilities for accounts payable. The City of Becker has implemented a new software system that includes that electronic routing of invoices for approval, collaborating with and incorporating the Fire Fund into these processes is recommended.

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, 2019. 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.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

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.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

City of Becker Required Communication

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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

Significant Accounting Policies

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 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on 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 markedly from management's current judgements. 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 and determined that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

City of Becker Required Communication

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Management did not identify and we did not notify them of any uncorrected financial statement misstatements

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.

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

- A prior period adjustment was made to increase beginning fund balance in the Fire Department Fund related to accounts receivable not recorded at December 31, 2018.

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 our audit.

Representations Requested from Management

We have 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.

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 auditor.

**City of Becker
Required Communication**

Other Information in Documents Containing Audited Financial Statements

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.

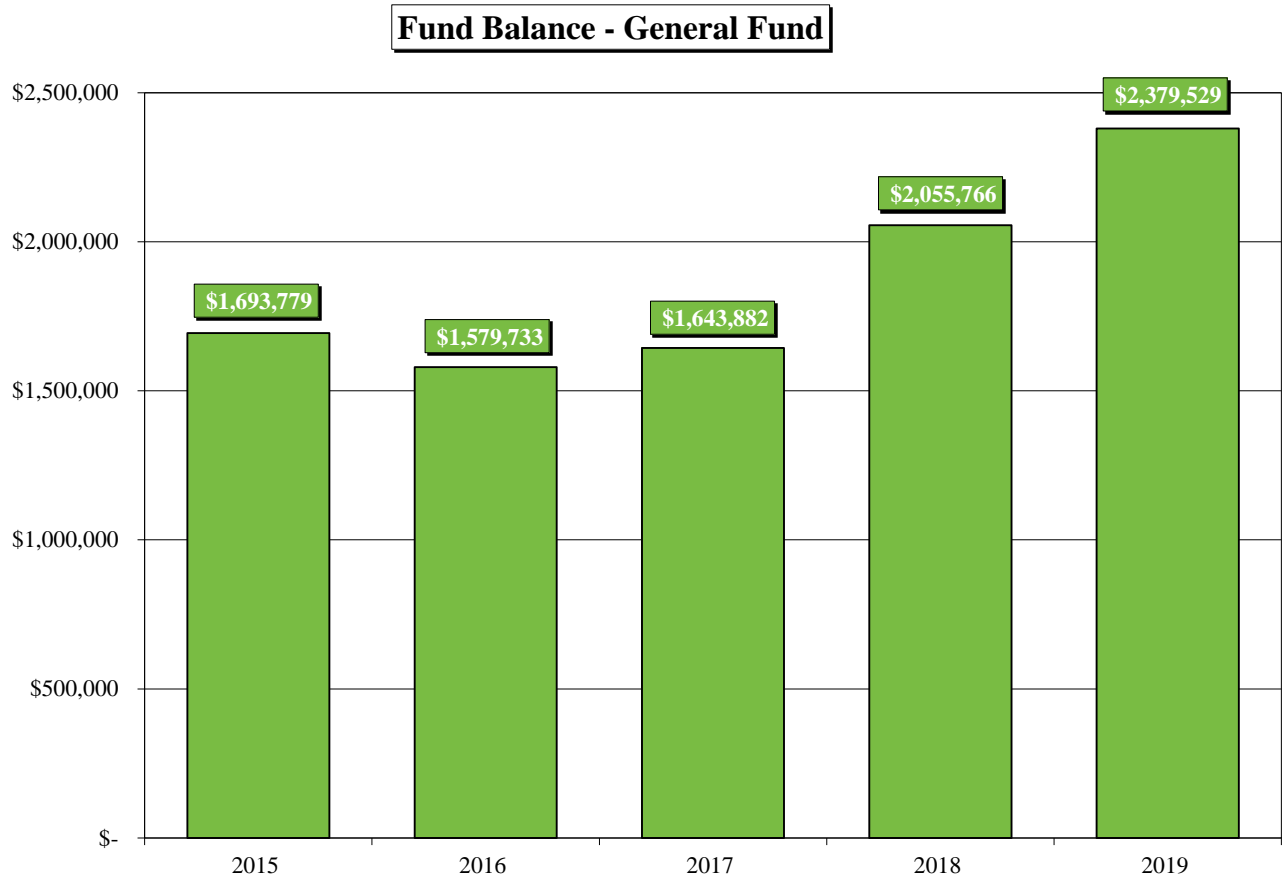
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United 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 \$323,763 from 2018 to 2019. This is a result of revenues exceeding expenditures.



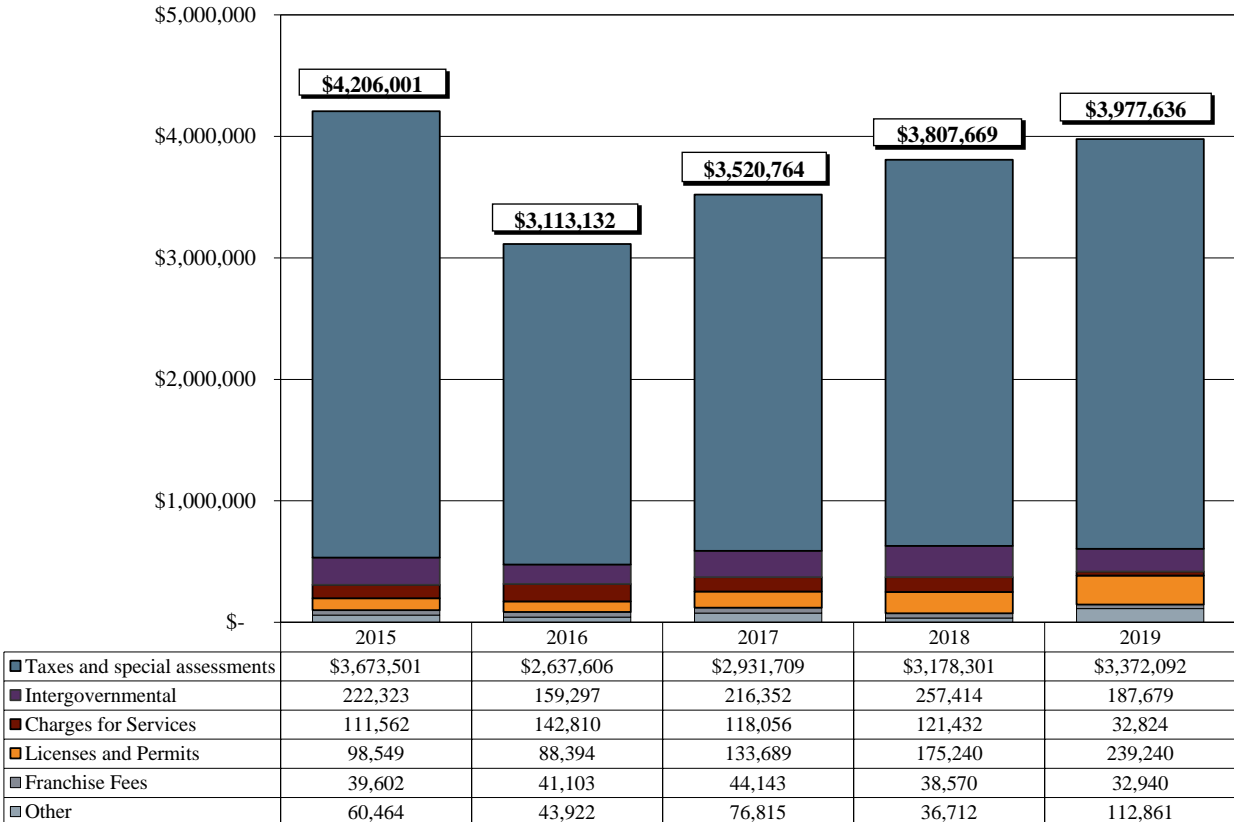
The majority of the City's total fund balance, \$2,356,735, is unassigned at year-end, while \$22,794 has already been spent on prepaid items, so it is classified as nonspendable.

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



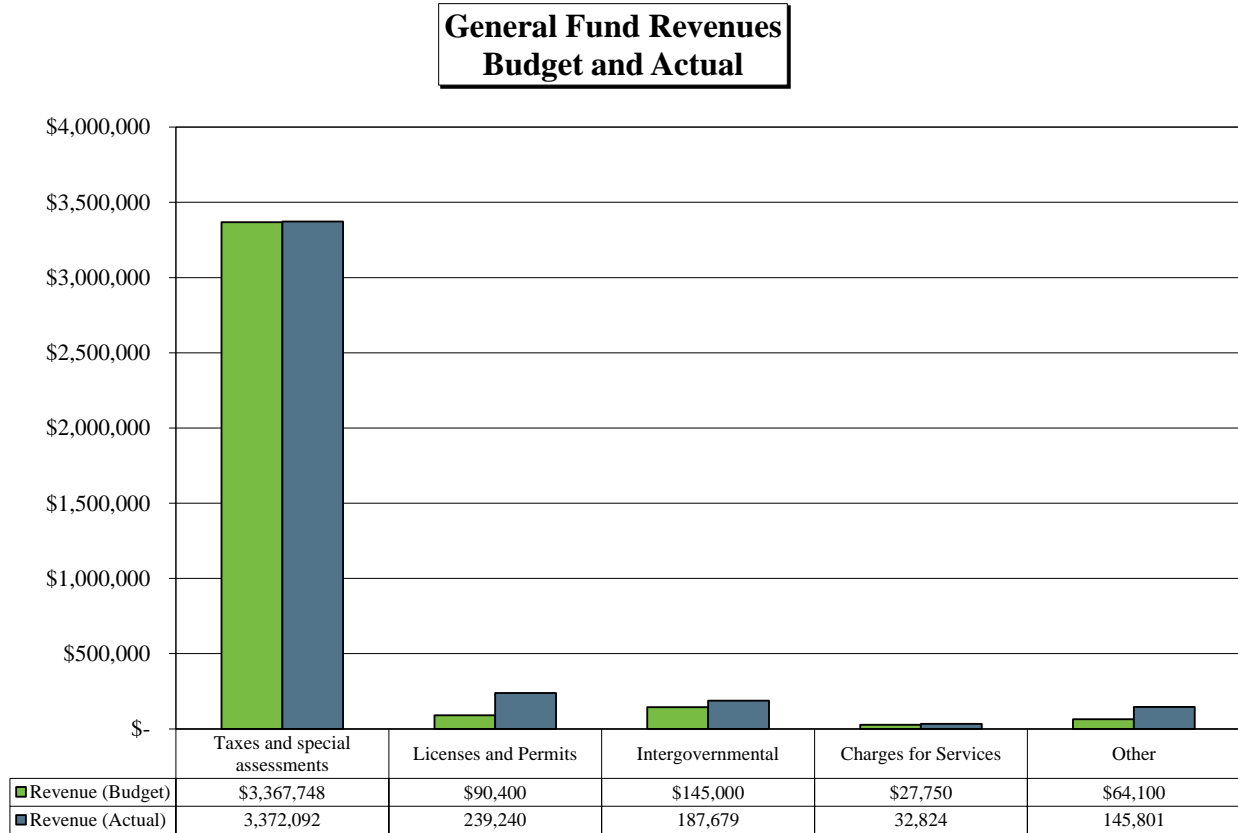
In total, revenues increased \$169,967 or 4.5%, from 2018 to 2019.

Taxes and special assessments reported the largest increase from 2018, increasing \$193,791 as a result of an increase in the General Fund's tax levy. Other revenues increased \$76,149 due primarily to increased investment income related to a better market conditions in 2019. Licenses and permits increased by \$64,000 due to an increase in building permits. Charges for services decreased \$88,608 primarily due to the ash user fee no longer being received with the closure of Great River Energy. Intergovernmental revenues decreased \$69,735 primarily due to a decrease in fire relief aid, which is passed through to the Relief Association, and the discontinuance of the small cities grant for 2019.

**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 \$282,638 or 7.6%.

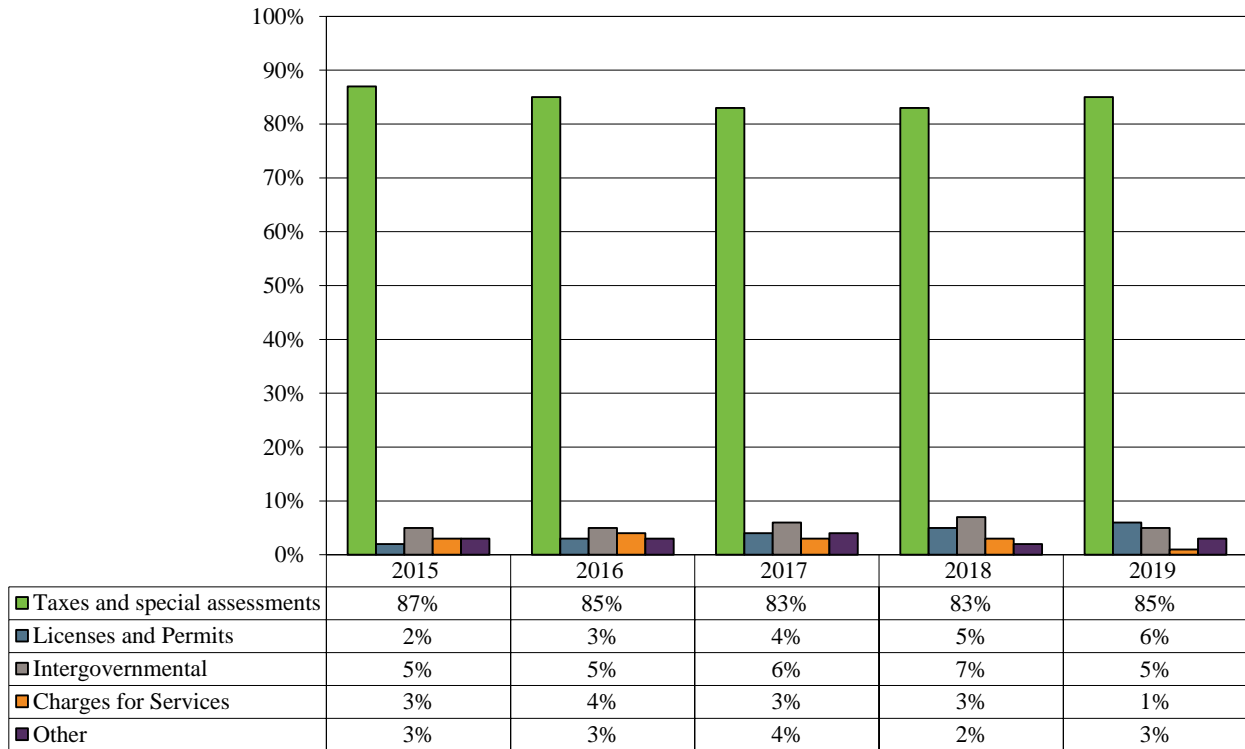
The greatest variance was in licenses and permits where actual revenue was \$148,840 over budget due to conservative budgeting for building permits. Other revenues were over budget \$87,761 due to conservative budgeting for investment earnings and other miscellaneous revenues. Intergovernmental revenues were over budget \$42,679 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

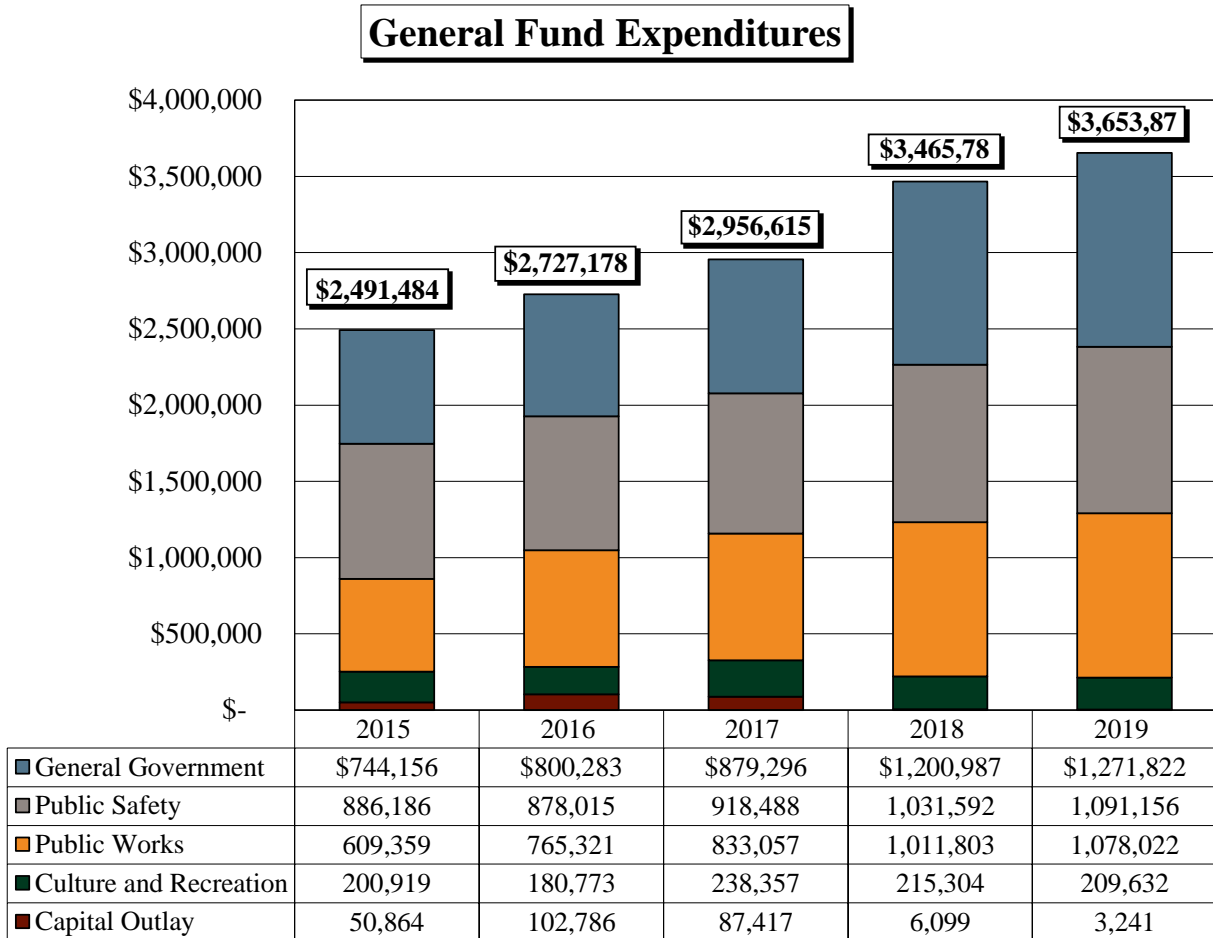


For the five years presented, the allocation of General Fund revenues has been fairly consistent among the various categories.

City of Becker Financial Analysis

GENERAL FUND EXPENDITURES

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



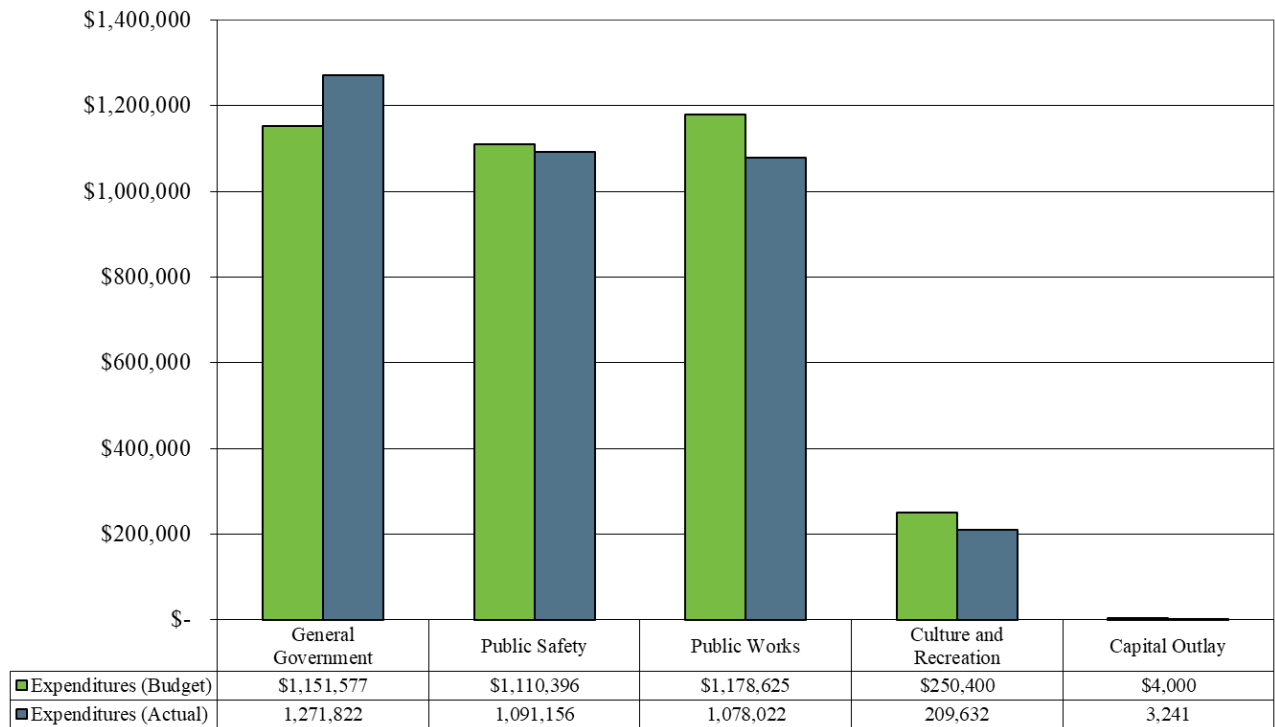
Overall, expenditures increased \$188,088, or 5.4%, from 2018 to 2019. The most significant increase in expenditures was the general government category, which increased \$70,835 primarily due to an increase in legal fees related to projects and an increase in repairs at City Hall. Public Safety expenditures increased \$59,564 due an increase in wages for police officers. Public works expenditures increased \$66,219 due to increases in wages, benefits, streets materials, and streets maintenance. Other functions were consistent with the prior year.

**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. Overall, total expenditures were \$41,125, or 1.1%, under the budgeted amounts. All categories other

**General Fund Expenditures
Budget and Actual**



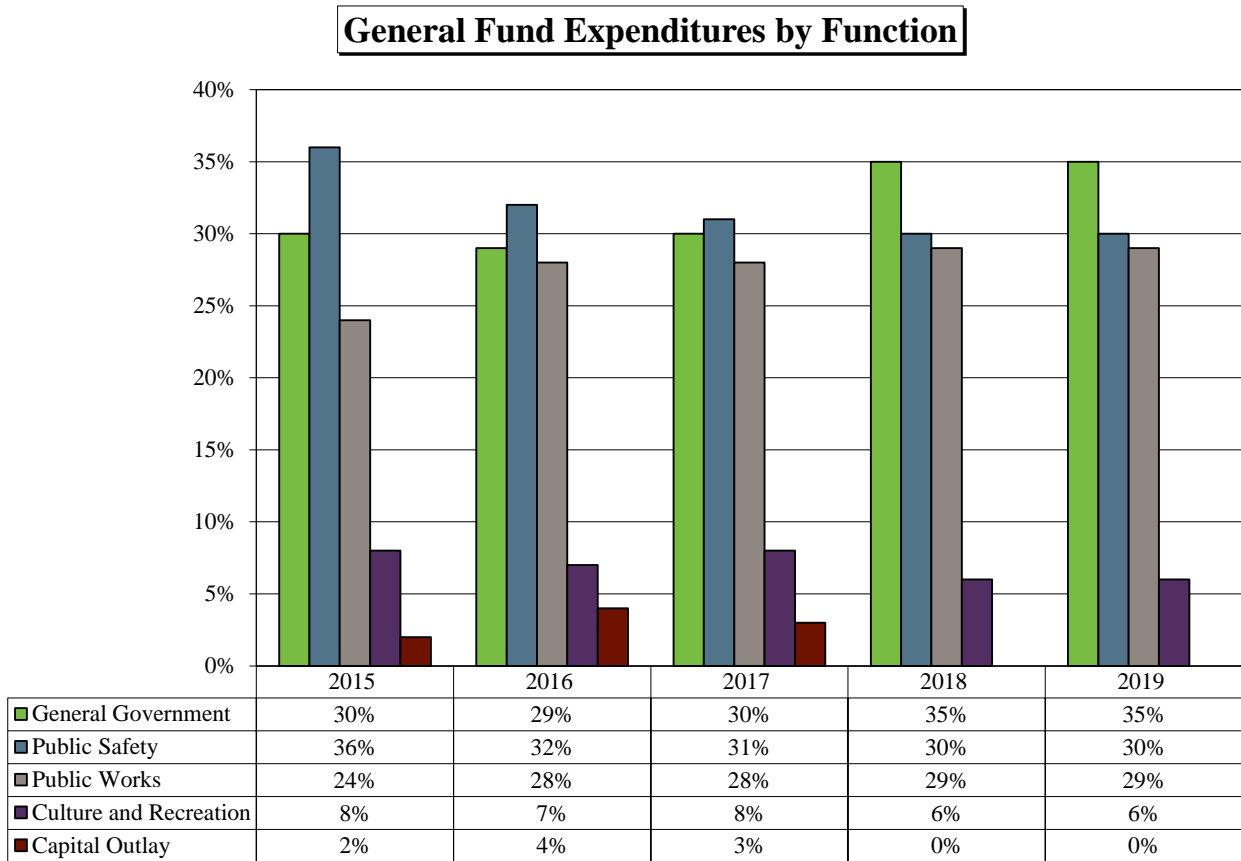
than general government were under the budgeted amount.

General government expenditures were \$120,245 overbudget due to increased legal fees related to projects and the City replacing several contracted positions with City employees in 2019 including planners and an accountant. Public work expenditures were \$100,603 under budget due to budgeting conservatively for parking lot repaving and repairs and maintenance costs. Culture and recreation expenditures were \$40,768 under budget due to employee restructuring resulting in a decrease in parks employees. 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.

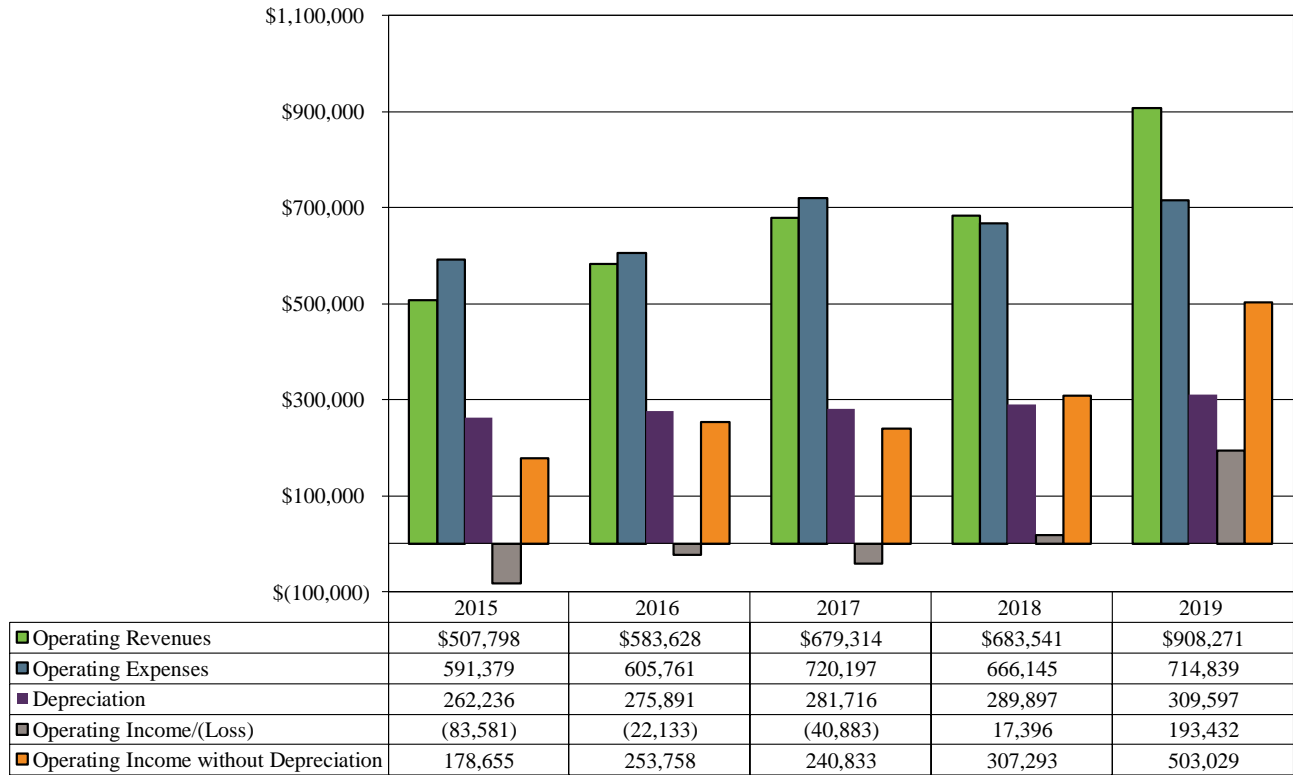


For the past five years, the City has had a fairly consistent approach to allocating spending across City departments and functions.

**City of Becker
Financial Analysis**

WATER UTILITY OPERATION

Water Fund



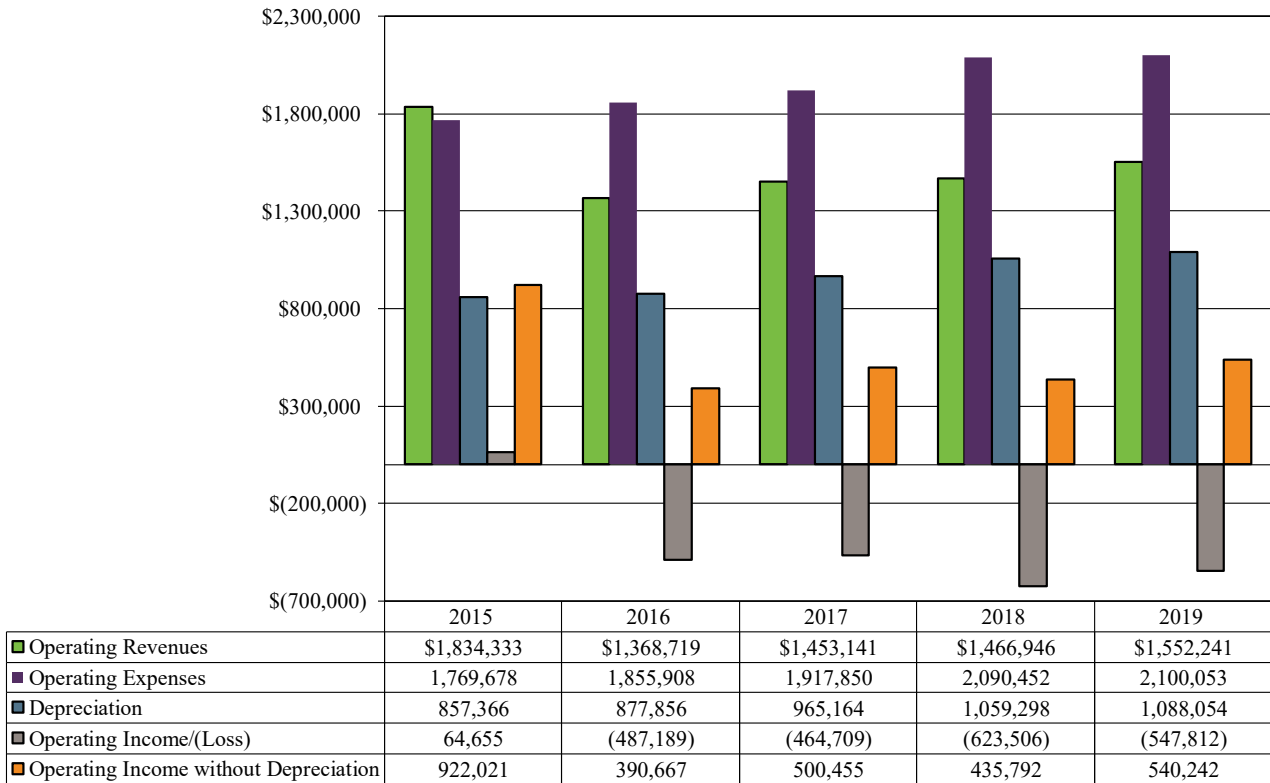
During 2019, the Water Fund revenues increased significantly, increasing \$224,730 or 32.9%. This large increase was due to an increased amount of water availability charges due to increased development in 2019. Operating expenses increased \$48,694 due to increased wages and employee benefits expense as well as increased depreciation expense for the first full year of depreciation of water meters installed in 2018. The Fund experienced a net operating income of \$193,432 in 2019. The chart above indicates that the fund has covered operating expenses excluding depreciation in all five years presented, and all operating expenses including depreciation for 2018 and 2019. We recommend that the City continue to monitor utility rates to ensure the fund is sustained.

City of Becker Financial Analysis

SEWER UTILITY OPERATION

During 2019, the Sewer Fund revenues increased \$85,295 or 5.8%, due to increase leachate fees related to increased precipitation. Operating expenses increased \$9,601, or 0.5%, due to increased wages and employee benefits expense as well as increased depreciation expense for the first full year of depreciation of the sewer jetter/vacuum truck purchased in 2018. Overall, the Fund experienced a net operating loss of \$547,812. Without depreciation the Fund reported \$540,242 of operating income. The chart above indicates that the fund has covered operating expenses excluding depreciation in all five years presented. We recommend that the City continue to monitor utility rates to ensure the fund is sustained.

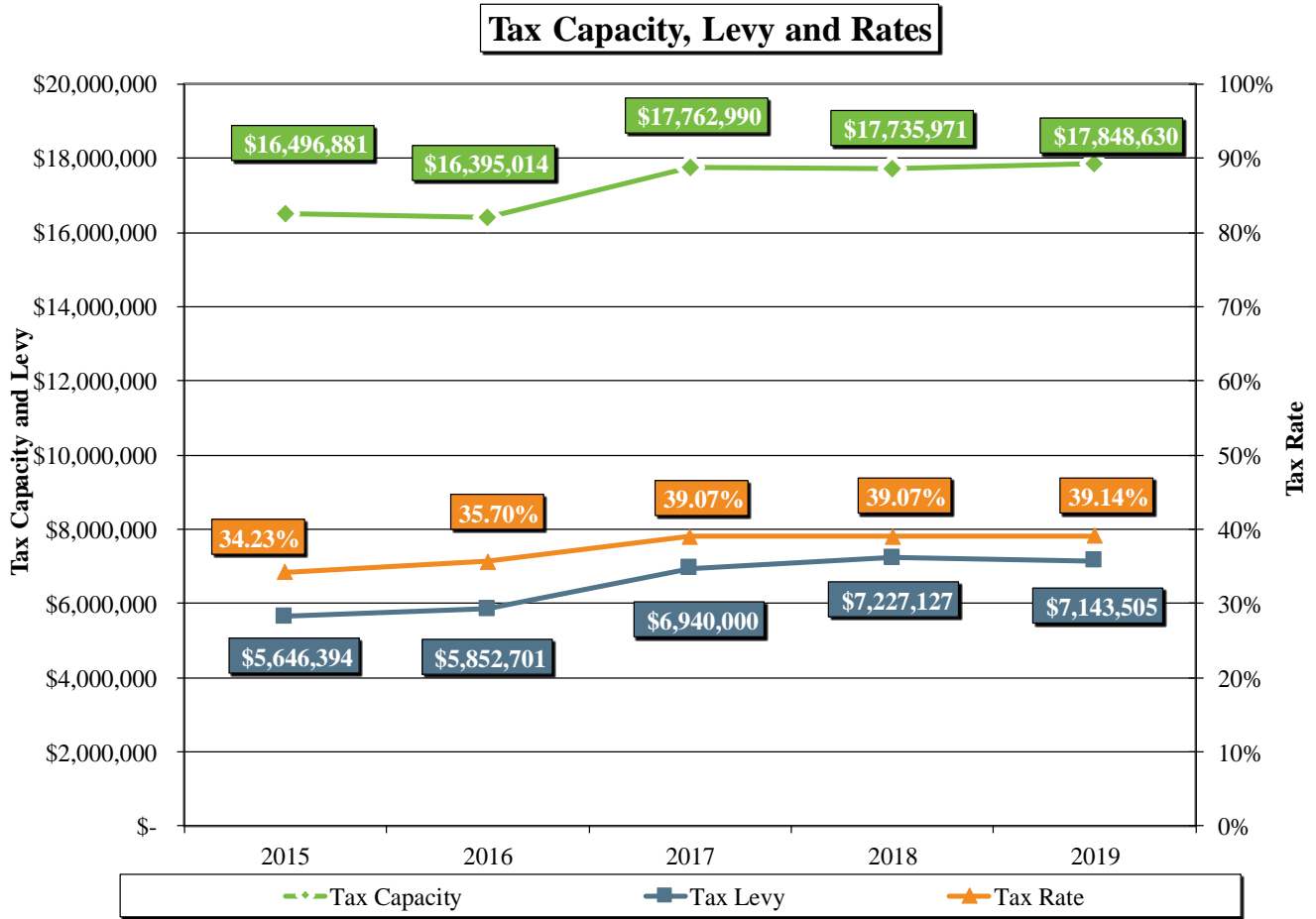
Sewer Fund



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. 2018 tax capacity and tax rates were rated based on finalized information from the County.

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.