CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2012

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

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Certified Public Accountants & Consultants

5201 Eden Avenue
Suite 250
Edina, MN 55436

May 29, 2013

Management, Honorable Mayor and City Council
City of East Bethel, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of East Bethel, Minnesota (the City), for the year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 23, 2012. Professional standards also require that we communicate to you 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 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

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements. We noted no instances of noncompliance that are required to be reported under *Government Auditing Standards* or Minnesota statutes.

Planned Scope and Timing of the Audit

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

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The requirements of GASB statements No. 63 and 65 were adopted for the year ended December 31, 2012. The application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

We evaluated the key factors and assumptions used to develop these estimates in determining that they are 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.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 representation letter dated May 29, 2013.

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 governmental unit'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.

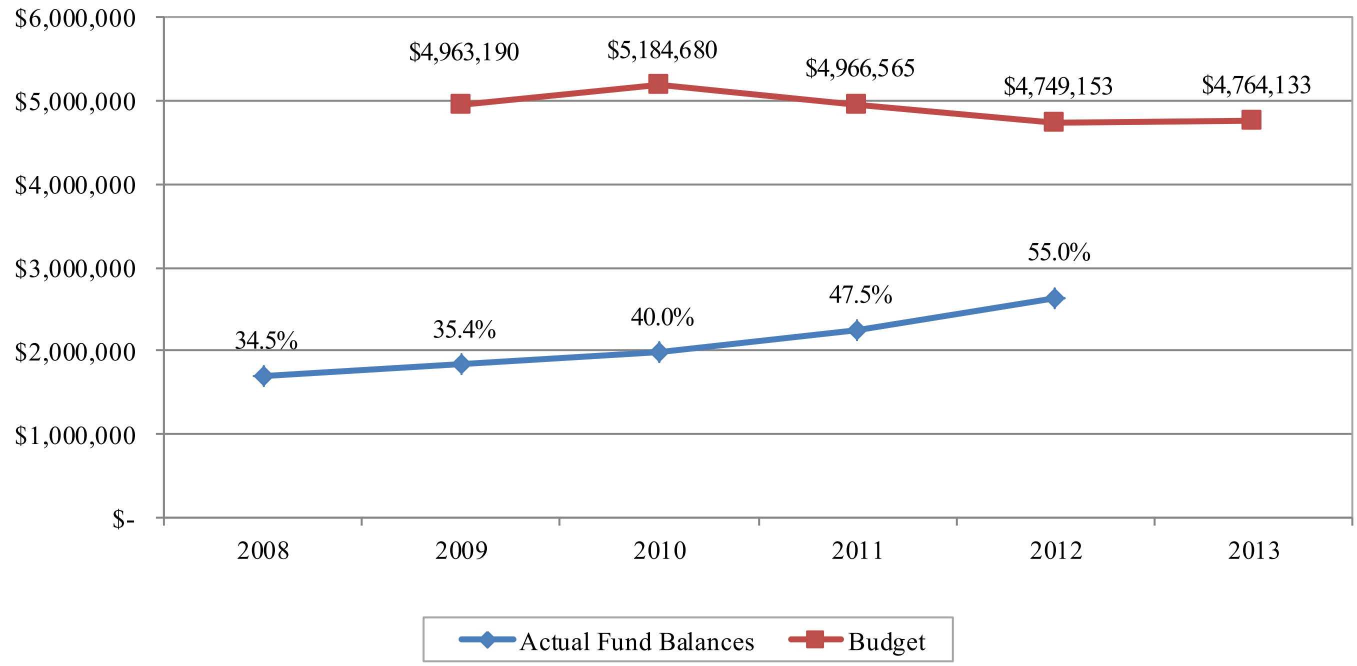
Other Audit Findings or Issues

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.

A table summarizing the General fund balance in relation to budgeted expenditures and transfers out follows:

Year	Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2008	$ 1,710,083	2009	4,963,190	34.5 %
2009	1,836,527	2010	5,184,680	35.4
2010	1,984,749	2011	4,966,565	40.0
2011	2,254,404	2012	4,749,153	47.5
2012	2,621,894	2013	4,764,133	55.0

Fund Balance as a Percent of Next Year's Budgeted Expenditures and Transfers Out



We have compiled a peer group average derived from information we request from the Office of the State Auditor for Cities of the 3rd class which have populations of 10,000-20,000. In 2010 and 2011, the average General fund balance as a percentage of expenditures was 54 percent and 76, percent, respectively. Based on comparison to the peer groups, the City's General fund balance is below the average.

The 2012 General fund operations are summarized as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 4,795,898	$ 4,899,542	$ 103,644
Expenditures	4,169,153	3,952,052	217,101
Excess of revenues over expenditures	626,745	947,490	320,745
Other financing uses			
Transfers out	(580,000)	(580,000)	-
Net change in fund balances	46,745	367,490	320,745
Fund balances, January 1	2,254,404	2,254,404	-
Fund balances, December 31	$ 2,301,149	$ 2,621,894	$ 320,745

The City's budget was not amended in 2012 and called for no change in ending fund balance. A more detailed summary of the budget variances is as follows:

- Revenues were in excess of budget by $103,644 mainly due to taxes, charges for services, and licenses and permits which were in excess of budget by $34,190, $32,010, and $27,545, respectively.

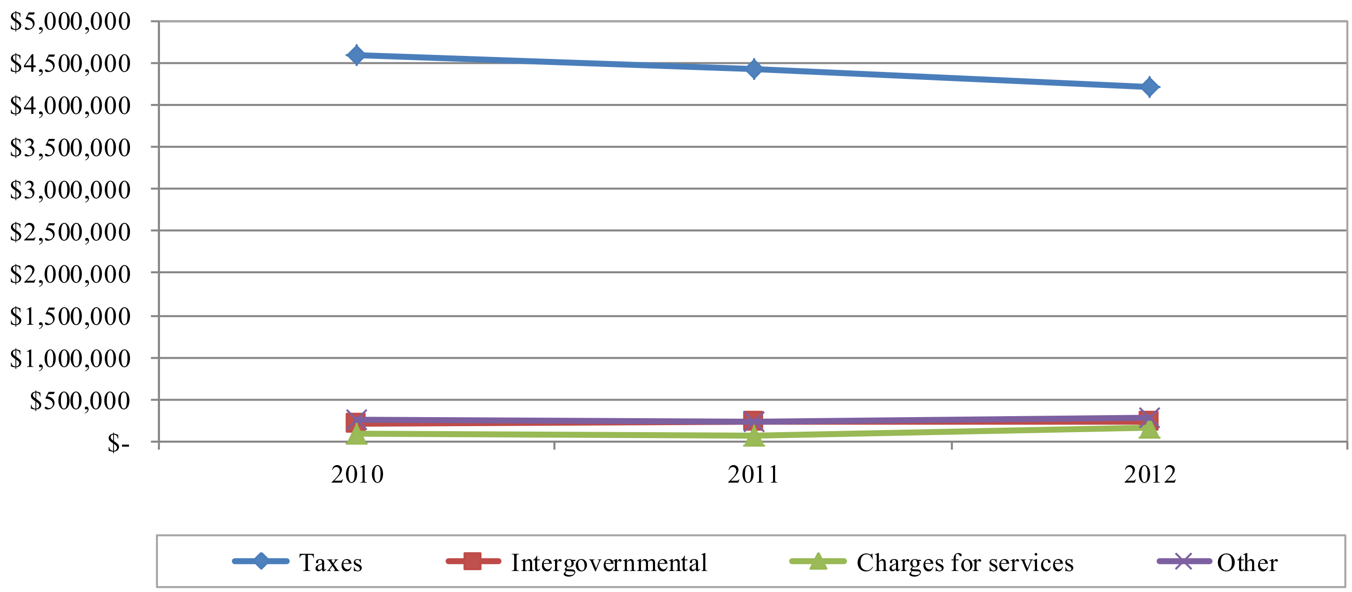
- Expenditures were under budget by $217,101. The largest variances were in general government, public safety, and miscellaneous which were $82,050, $69,713, and $24,958 under budget, respectively. The general government variance was mostly due to personal services in planning ($40,232) and miscellaneous contractual services ($25,273). For the public safety area, the variance was mostly created because of personal services, part of building inspections, by $53,817 and contractual services, part of fire protection, by $18,855. Contractual services of $24,502 was a large part of the variance for miscellaneous.

A comparison of General fund among 2010, 2011, and 2012 revenues are presented below:

Source	2010	2011	2012	Percent of Total	Per Capita
Taxes	$ 4,583,900	$ 4,428,762	$ 4,225,660	86.3 %	$ 359
Licenses and permits	106,387	109,366	144,895	3.0	12
Intergovernmental	210,639	239,189	230,565	4.7	20
Charges for services	88,133	75,010	153,840	3.1	13
Fines and forfeitures	58,519	49,792	52,870	1.1	4
Investment income	3,982	1,586	2,100	-	-
Franchise fees	35,945	37,874	40,227	0.8	3
Miscellaneous	42,960	40,836	49,385	1.0	4
Total revenues and transfers	$ 5,130,465	$ 4,982,415	$ 4,899,542	100.0 %	$ 415

A graphical presentation of 2010, 2011, and 2012 revenues and transfers in follows:

General Fund Revenues by Source

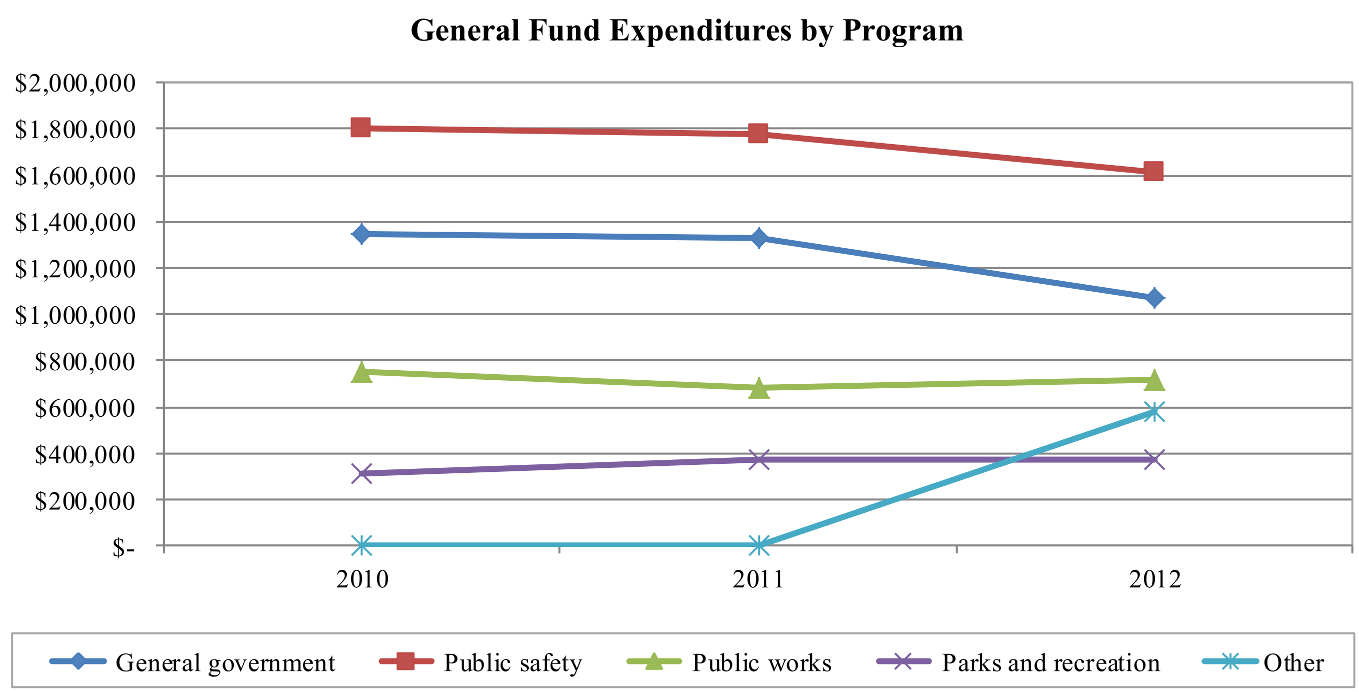


A comparison of General fund expenditures among 2010, 2011, and 2012 are presented below:

Program	2010	2011	2012	Percent of Total	Per Capita	Peer Group
General government	$ 1,350,215	$ 1,325,655	$ 1,069,115	23.5 %	$ 91	$ 97
Public safety	1,803,345	1,781,927	1,610,482	35.6	137	221
Public works	750,946	679,882	719,920	15.9	61	91
Parks and recreation	314,541	372,692	376,067	8.3	32	53
Miscellaneous	-	-	176,468	3.9	15	16
Transfers out	-	-	580,000	12.8	49	-
Total expenditures	$ 4,219,047	$ 4,160,156	$ 4,532,052	100.0 %	$ 385	$ 478

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 the 3rd Class Cities (populations 10,000 to 20,000) that we audit and information from the Minnesota Office of the State Auditor.

The expenditures and transfers out summarized above are presented graphically as follows:



Special Revenue Funds

A summary of the special revenue fund balances is shown below:

Fund	Fund Balances December 31, 2012	Fund Balances December 31, 2011	Increase (Decrease)
Nonmajor			
Recycling	$ 29,665	$ 20,091	$ 9,574
Miscellaneous Grants/Donations	6,848	5,556	1,292
HRA	799,517	810,846	(11,329)
EDA	36,064	(956)	37,020
Total	$ 872,094	$ 835,537	$ 36,557

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 parks and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.

- Tax increments - Pledged exclusively for tax increment/economic development districts.

- 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 summary of the cash, total assets and bonds outstanding for each issue of the City:

Debt Service Fund	Cash and Investments	Total Assets	Bonds Outstanding	Final Maturity Date
G.O. Improvement Bonds				
2005 Public Safety Bonds	$ 176,039	$ 176,039	$ 1,510,000	02/02/26
2008A Sewer Revenue Bond	1,238	161,238	1,430,000	02/01/29
2010C Bond	126,004	126,004	1,260,000	02/01/17
G.O. Special Assessment Bonds				
2005B Street Improvement Debt	302,596	375,078	225,000	02/01/16
G.O. Revenue Bonds				
2010 Water Revenue Note	2,750	2,750	62,589	08/20/29
2010A Revenue Bond	158,153	158,767	8,605,645	02/01/40
2010B Utility Revenue Bond	61,313	61,313	6,100,000	02/01/40
Total Debt Service Funds	$ 828,093	$ 1,061,189	$ 19,193,234	

Capital Projects Funds

The fund balances of all capital projects funds are summarized below:

Capital Projects Fund	Fund Balances December 31, 2012	Fund Balances December 31, 2011	Increase (Decrease)
Major			
Municipal State Aid Street Improvement	$ 219,448	$ (16,957)	$ 236,405
Water Infrastructure	4,532,523	8,077,970	(3,545,447)
Utility Infrastructure	1,737,128	2,349,216	(612,088)
Total major	6,489,099	10,410,229	(3,921,130)
Nonmajor			
Park Acquisition	26,047	26,008	39
Park Trails	146,044	141,516	4,528
Minard Street	19,696	19,667	29
Improvements of 2003	(3,123)	(12,931)	9,808
Street Capital	619,175	1,182,353	(563,178)
Park Capital	76,420	15,276	61,144
Utility Improvement	1,412	961	451
Building	89,685	39,610	50,075
Lunde/Jewell Street	40,353	34,899	5,454
TIF No. 1.1	(2,543)	-	(2,543)
Total nonmajor	1,013,166	1,447,359	(434,193)
Total	$ 7,502,265	$ 11,857,588	$ (4,355,323)

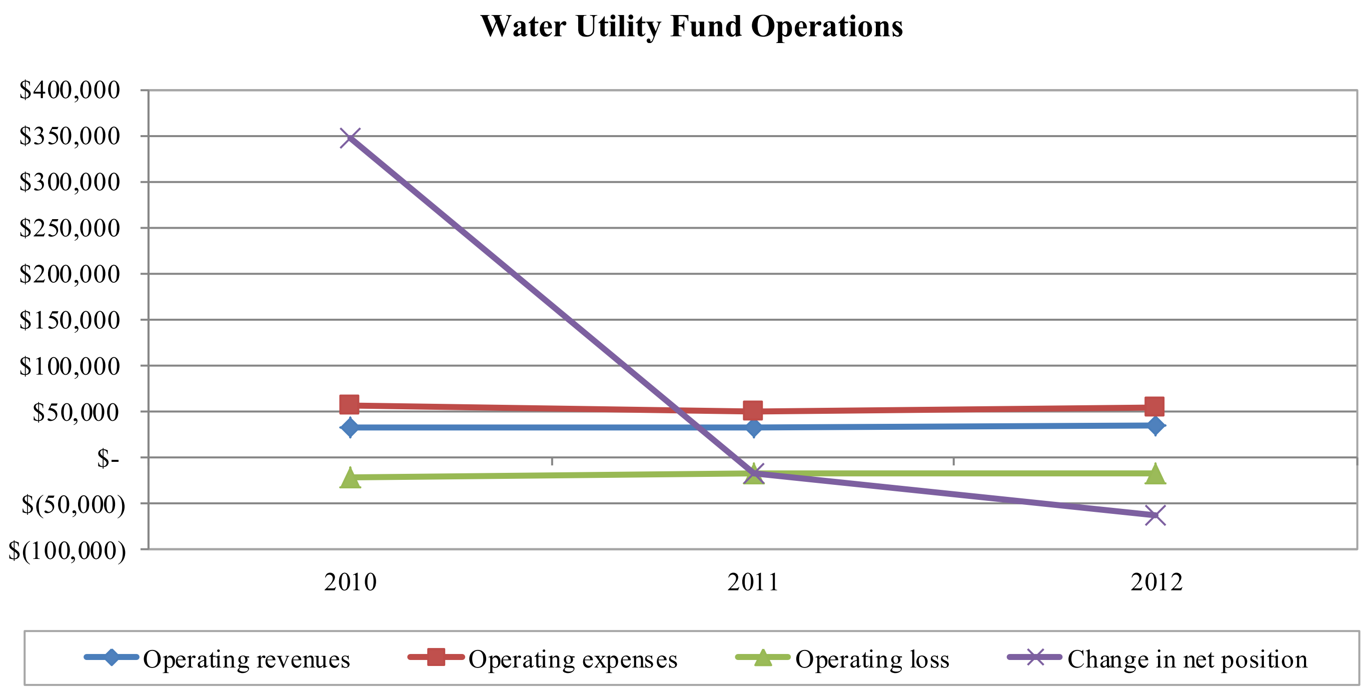
The City should monitor the deficit funds to ensure there will be future revenues to remove the deficit.

Enterprise Funds

Water Utility Fund

The following is a summary of operations in the Water Utility fund for the past three years:

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 33,163	100.0 %	$ 33,014	100.0 %	$ 34,445	100.0 %
Operating expenses	55,180	166.4	50,302	152.4	53,320	154.8
Operating loss	(22,017)	(66.4)	(17,288)	(52.4)	(18,875)	(54.8)
Nonoperating expenses	(388)	(1.2)	(214)	(0.6)	(44,133)	(128.1)
Capital contribution	370,173	1,116.2	-	-	-	-
Change in net position	$ 347,768	1,048.6 %	$ (17,502)	(53.0) %	$ (63,008)	(182.9) %
Cash and investments	$ -		$ -		$ -	
Due to other funds	$ 125,543		$ 124,684		$ 115,508	
Bonds payable	$ -		$ -		$ 2,859,355	

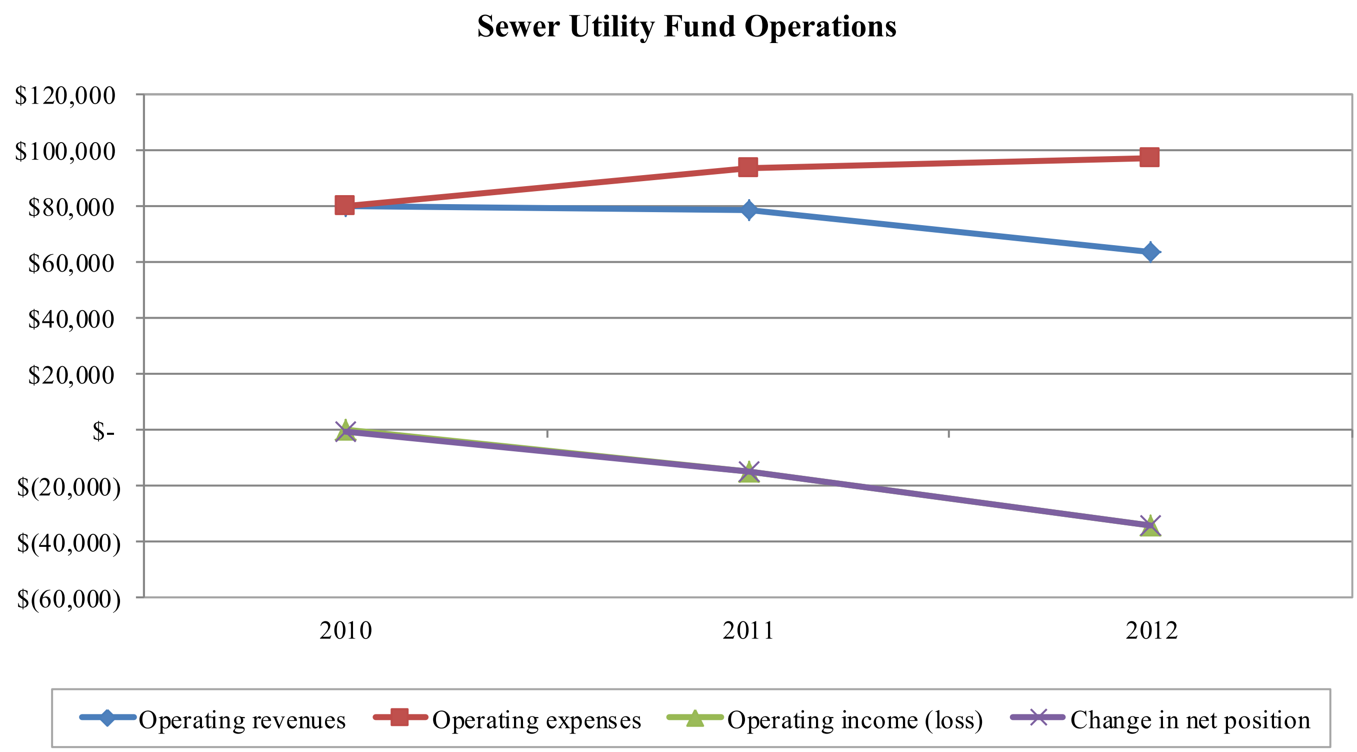


The fund experienced an operating loss for the previous three years. The fund has no cash and investments and is using reserves to support operations. We recommend that the rates be reviewed annually to ensure that they are sufficient to cover operating costs and planned project costs.

Sewer Utility Fund

The following is a summary of operations in the Sewer Utility fund for the past three years:

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 80,247	100.0 %	$ 79,123	100.0 %	$ 63,785	100.0 %
Operating expenses	79,983	99.7	93,820	118.6	97,737	153.2
Operating income (loss)	264	0.3	(14,697)	(18.6)	(33,952)	(53.2)
Nonoperating expenses	(668)	(0.8)	(341)	(0.4)	(294)	(0.5)
Change in net position	$ (404)	(0.5) %	$ (15,038)	(19.0) %	$ (34,246)	(53.7) %
Cash and investments	$ -		$ -		$ -	
Due to other funds	$ 203,321		$ 195,824		$ 204,834	

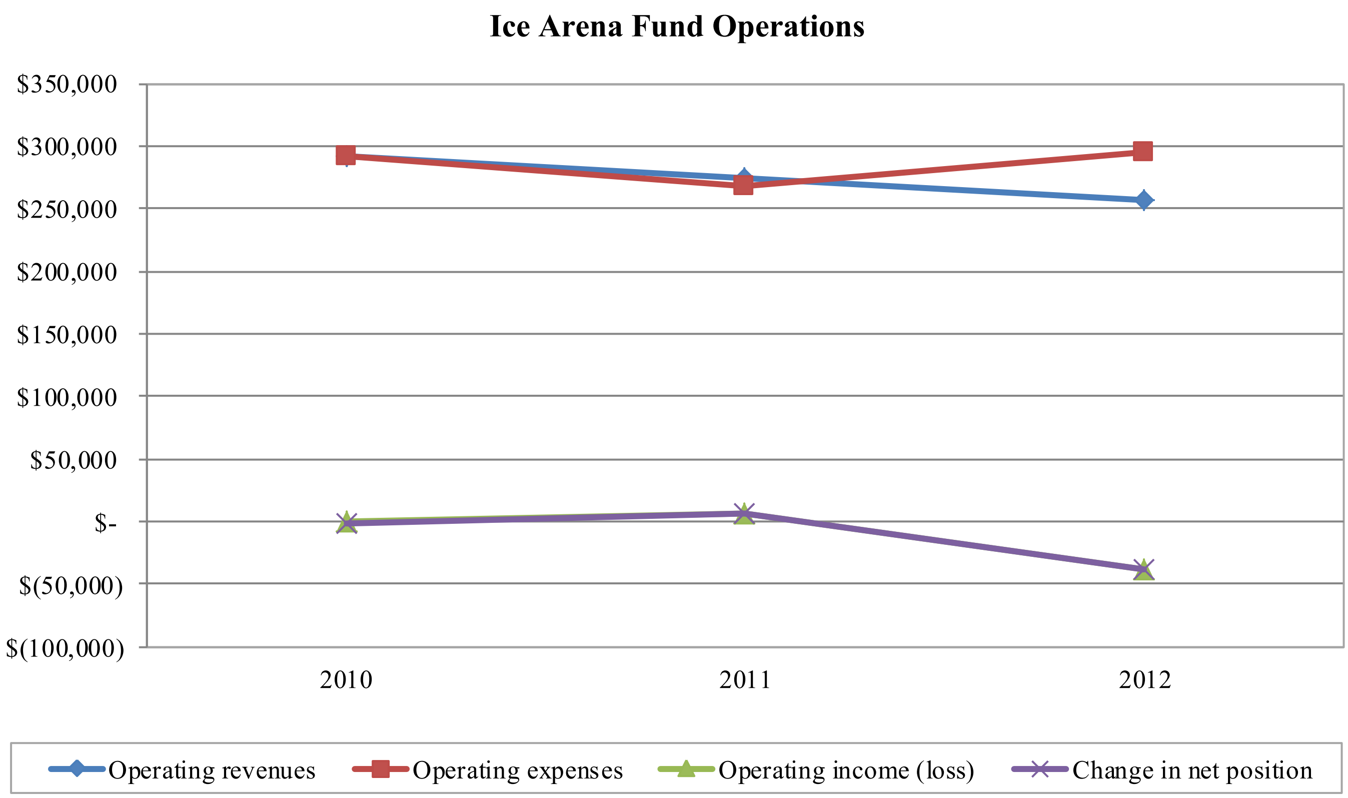


The fund experienced an operating loss for the second time in the previous three years. Some of the factors that participated in the operating loss were a decrease in customer charges and increase in supplies expense. The fund has no cash and investments and is using reserves to support operations. We recommend that the rates be reviewed annually to ensure that they are sufficient to cover operating costs and planned project costs.

Ice Arena Fund

The following is a summary of operations in the Ice Arena fund for the past three years:

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	$ 292,734	100.0 %	$ 275,200	100.0 %	$ 256,338	100.0 %
Operating expenses	292,691	100.0	268,950	97.7	295,144	115.1
Operating income (loss)	43	-	6,250	2.3	(38,806)	(15.1)
Nonoperating expenses	(907)	(0.3)	(350)	(0.1)	(179)	(0.1)
Change in net position	$ (864)	(0.3) %	$ 5,900	2.2 %	$ (38,985)	(15.2) %
Cash and investments	$ -		$ -		$ -	
Due to other funds	$ 192,934		$ 134,835		$ 47,197	



The fund had operating loss of $38,806 in 2012. Some factors that created the operating loss was a decrease in revenues relating to ice rentals, dry floor events, and donations; also, an increase in depreciation expense. The fund has no cash and investments at the end of 2012. We recommend that the rates be reviewed annually to ensure that they are sufficient to cover operating costs and planned project costs.

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 3rd class (10,000 to 20,000). 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 regardless of size) ratios are shown below.

Ratio	Calculation	Source	2010	2011	2012
Debt to assets	Total liabilities/total assets	Government-wide	39% *36%*	41% *32.0%*	42% *N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 1,889 *$ 2,503*	$ 1,943 *2253*	$ 1,917 *N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 396 *$ 468*	$ 415 *442*	$ 395 *N/A*
Current expenditures per capita	Governmental fund current expenditures/population	Governmental funds	$ 387 *$ 632*	$ 426 *636*	$ 379 *N/A*
Capital expenditures per capita	Governmental fund capital outlay/population	Governmental funds	$ 306 *$ 284*	$ 418 *257*	$ 513 *N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	57% *57%*	57% *63.0%*	54% *N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	56% *68%*	51% *68.0%*	72% *N/A*

Represents the City of East Bethel
Represents Peer Group Average

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 financed with outstanding debt).

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 expenditures 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 expenditures 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. 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.

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.

Future Accounting Standard Changes - Continued

GASB Statement No. 66 - *Technical Corrections- an Amendment of GASB Statements No. 10 and No. 62*

Summary

The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54*, Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports.

GASB Statement No. 67 - *The Financial Reporting for Pension Plans- an Amendment to GASB Statement No. 25*

Summary

The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. The comparability of the reported information for similar types of pension plans will be improved by the changes related to the attribution method used to determine the total pension liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due.

Future Accounting Standard Changes - Continued

GASB Statement No. 68 - *The Accounting and Financial Reporting of Pensions- an Amendment of GASB Statement No. 27*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information.

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This communication is intended solely for the information and use of City Council, 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 recommendation in this 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 opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

Abdo Eick & Meyers, LLP

May 29, 2013
Minneapolis, Minnesota

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Certified Public Accountants