CREDIT RIVER TOWNSHIP
SCOTT COUNTY, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2011

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

CREDIT RIVER TOWNSHIP
SCOTT COUNTY, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2011

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

February 20, 2012

5201 Eden Avenue
Suite 250
Edina, MN 55436

Management and Board of Supervisors
Credit River Township
Scott County, 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 Credit River Township, Minnesota (the Township) for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 1, 2011. 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

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 Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

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

A deficiency in internal control over financial reporting 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 Township's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

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2011-1 Preparation of financial statements

Condition: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over safeguarding of assets and the reliability of financial reporting.

Cause: From a practical standpoint, we both prepare the statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with organizations of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting. We have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation: Under these circumstances, the most effective controls lie in management's knowledge of the Township's financial operations. It is the responsibility of management and those charged with governance to make the decision to accept the degree of risk associated with this condition because of cost or other considerations. Regarding the specific situations listed above, we would offer the following recommendations: 1) Utilize a disclosure checklist to ensure that all required disclosures are present and agree to work papers, and 2) Agree your accounting information from Banyon to the amounts reported in the financial statements.

Management response:

For now, the Township's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have 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. We noted no instances of noncompliance with Minnesota statutes.

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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 Township are described in Note 1 to the financial statements. The requirements of GASB statement No. 54 were adopted for the year ended December 31, 2011. We noted no transactions entered into by the governmental unit 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 significant estimate affecting the financial statements was depreciation on capital assets.

Management's estimate of depreciation is based on estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

We proposed no journal entries that we consider to be audit entries or corrections of management decisions; however, we assisted in preparing a number of year end accounting entries. These were necessary to adjust the Township's records at year end to correct ending balances. The Township should establish more detailed processes and procedures to reduce the total number of entries in each category. The Township will receive better and timelier information if the preparation of year end entries is completed internally

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representations letter dated February 20, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township'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 Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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Financial Position and Results of Operations

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

General Fund

The General fund is used to account for resources traditionally associated with government, which are not required legally or by sound principal management to be accounted for in another fund. The fund balance increased $71,197 in 2011. The total fund balance is $683,994 and $1,819 is nonspendable for prepaid items. The fund balance represents 132 percent of the 2012 budgeted expenditures. At the current level, the Township has over a year worth of available resources for general operations.

Minnesota townships must maintain substantial amounts of fund balance in order to meet their liquidity and working capital needs as an operating entity. That is because a substantial portion of your revenue sources (taxes and intergovernmental revenues) are received in the last two months of each six-month cycle.

The local government may assign and report some or all of the fund balance as assigned or committed. The Township has approved a policy to maintain an unassigned fund balance in the General fund of an amount not less than 33 percent. This helps address citizen concerns as to the use of fund balance and tax levels.

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

- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.

- The Township is vulnerable to legislative actions at the State and Federal level. The State imposed reductions of market value credit aid and local government aid for some cities and townships at the end of 2010. Additional reductions were imposed in 2011. Levy limits have also been implemented for municipalities in past legislative sessions. An adequate fund balance will provide a temporary buffer against those aid adjustments and levy limits.

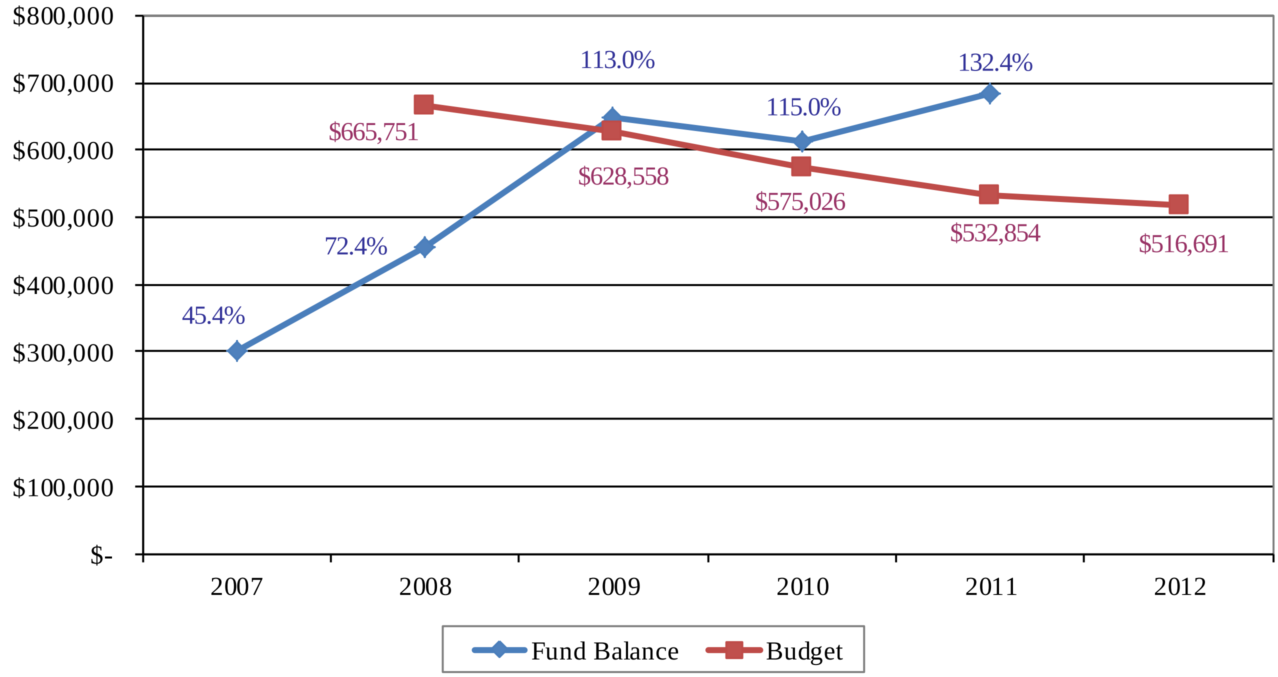
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Board action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.

- A strong fund balance will assist the Township in maintaining, improving or obtaining its bond rating. The result will be better interest rates in future bond sales.

A table summarizing the General fund balance in relation to budget follows:

Year	Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2007	$ 302,003	2008	$ 665,751	45.4 %
2008	455,384	2009	628,558	72.4
2009	650,052	2010	575,026	113.0
2010	612,797	2011	532,854	115.0
2011	683,994	2012	516,691	132.4

Fund Balance as a Percent of Next Year's Budget



A summary of the 2011 operations is as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 541,323	$ 551,948	$ 10,625
Expenditures	532,854	480,751	52,103
Net change in fund balances	8,469	71,197	62,728
Fund balances, January 1	612,797	612,797	-
Fund balances, December 31	$ 621,266	$ 683,994	$ 62,728

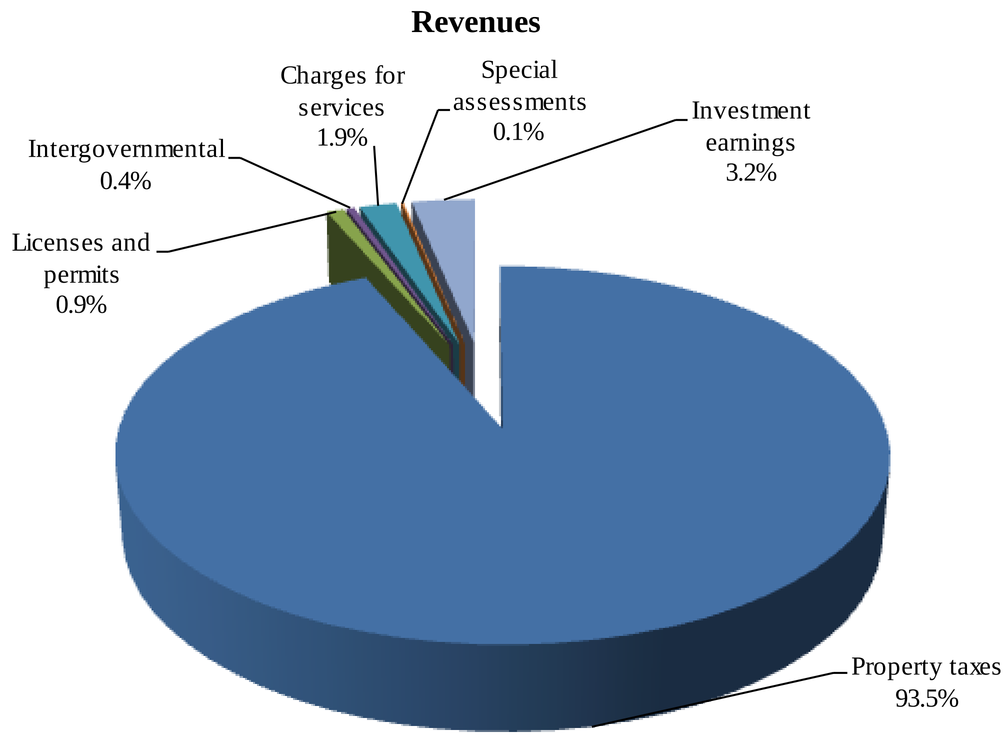
Some of the line items with significant variances are highlighted below:

- Expenditures were under budget in all functions. General government expenditures had the largest positive budget variance of $42,986 due to budgeting incorporation cost and not spending it. Total expenditures were $52,103 under budget.

A summary of General fund revenues is as follows:

Source	2009	2010	2011	Percent of Total	Per Capita
Property taxes	$ 579,913	$ 403,067	$ 503,044	91.1 %	$ 99
Franchise taxes	7,453	7,759	13,240	2.4	3
Licenses and permits	4,553	7,230	4,849	0.9	1
Intergovernmental	-	-	2,238	0.4	-
Charges for services	34,540	15,166	10,327	1.9	2
Special assessments	-	-	644	0.1	-
Investment earnings	43,607	30,869	17,606	3.2	3
Miscellaneous	10	-	-	-	-
Transfers in	3,789	2,587	-	-	-
Total revenues	$ 673,865	$ 466,678	$ 551,948	100.0 %	$ 108

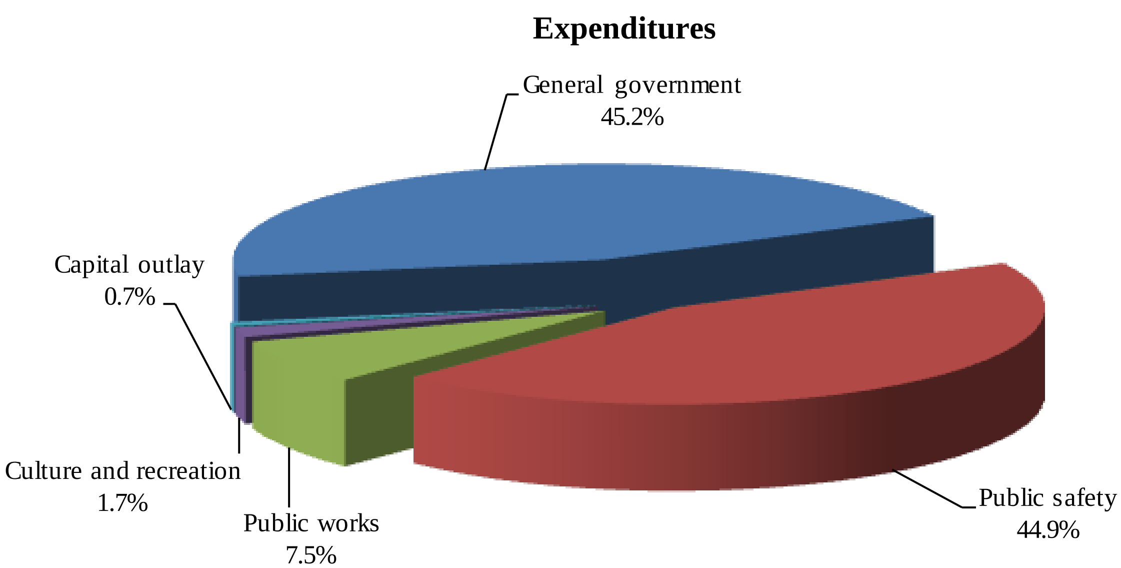
The sources of General fund revenues for 2011 are presented graphically as follows:



A summary of General fund expenditures is as follows:

Program	2009	2010	2011	Percent of Total	Per Capita
Current					
General government	$ 247,118	$ 246,968	$ 217,304	45.2 %	$ 43
Public safety	189,354	211,962	215,860	44.9	42
Public works	36,139	38,216	36,208	7.5	7
Culture and recreation	5,839	6,767	8,019	1.7	2
Total current	478,450	503,913	477,391	99.3	94
Capital outlay	747	20	3,360	0.7	1
Total expenditures	$ 479,197	$ 503,933	$ 480,751	100.0 %	$ 95

The program expenditures for 2011 are presented graphically as follows:



Special Revenue Funds

A summary of year end fund balances for all special revenue funds follows:

Fund	Fund Balances December 31, 2011	Fund Balances December 31, 2010	Increase (Decrease)
Major			
Road and Bridge	$ 876,553	$ 903,141	$ (26,588)
Nonmajor			
Park	132,699	130,399	2,300
Total nonmajor	132,699	130,399	2,300
Total	$ 1,009,252	$ 1,033,540	$ (24,288)

The Road and Bridge fund had an overall decrease in fund balance of $26,588. The Township transferred approved a resolution in 2011 to transfer the fund balance in excess of 50 percent of the next year budget in the operating portion of the Road and Bridge fund to the Capital Improvements fund. In addition to this, the Township uncommitted $270,000 of fund balance and transferred to the Capital Improvements fund.

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 Township benefit projects such as parks and township buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.

- Capitalized interest portion of bond proceeds - After the sale of bonds, the project may not produce revenue (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

A comparison of the assets of the Debt Service fund is as follows:

	Cash Balance	Total Assets	Debt Outstanding
Improvement Bond Fund	$ 145,711	$ 375,590	$ 705,000

The Township should monitor cash flow requirements for the bond throughout the life of the bond to ensure there will be available resources to pay the debt service payments. The following schedule shows the projected cash flow of the fund based on schedule tax collection and amortization of outstanding assessments:

Year	Scheduled Tax Collections	Estimated Special Assessment Collections	Principal and Interest Payments	Estimated Cash Balance
2011	$ -	$ -	$ -	$ 145,711
2012	43,647	43,229	96,210	136,377
2013	44,124	41,712	94,850	127,363
2014	49,684	40,196	93,330	123,912
2015	54,781	38,679	96,510	120,862
2016	54,502	37,163	99,410	113,117
2017	59,095	35,646	97,070	110,788
2018	68,791	34,131	99,480	114,229
2019	-	-	106,575	7,654

Capital Projects Funds

The Township established the Capital Improvements fund in 2011 through transferring funds from the Road and Bridge special revenue fund. The Capital Improvements fund will be used for future capital projects. The Nonmajor capital project funds in projects were completed and closed during the year.

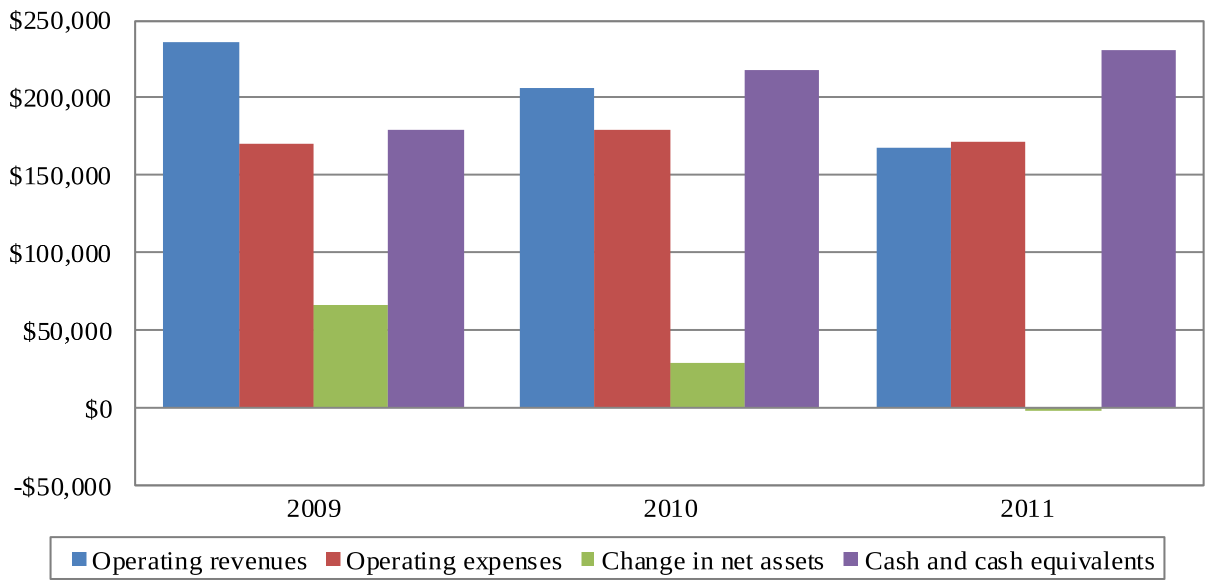
Fund	Fund Balances (Deficits) December 31, 2011	2010	Increase (Decrease)
Capital Improvements	$ 465,513	$ -	$ 465,513
Nonmajor			
Judicial Road	-	(464)	464
Whitewood Birch	-	(29,291)	29,291
Huntington Way	-	2,646	(2,646)
Total nonmajor	-	(27,109)	27,109
Total capital projects funds	$ 465,513	$ (27,109)	$ 492,622

Enterprise Funds

The Township operates three enterprise funds which are combined on the Enterprise statements. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Township has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. A summary of their operations and cash position follows.

Sewer Subordinate Service Districts

	2009		2010		2011	
	Amount	Percent	Amount	Percent	Amount	Percent
Operating revenues	$ 235,531	100.0 %	$ 206,784	100.0 %	$ 168,298	100.0 %
Operating expenses	170,793	72.5	179,529	86.8	171,150	101.7
Operating income (loss)	64,738	27.5	27,255	13.2	(2,852)	-1.7
Nonoperating revenues	1,218	0.5	1,984	1.0	854	0.5
Transfers out	(3,789)	-2.2	-	0.0	-	0.0
Change in net assets	$ 65,956	25.8 %	$ 29,239	14.2 %	$ (1,998)	-1.2 %
Cash and temporary investments	$ 179,103		$ 217,776		$ 230,383	
Capital replacement and repair net asset restriction	$ 73,536		$ 104,811		$ 128,118	



Operating margins are sufficient to keep pace with operating expenses, except in the Monterey Heights/South Passage district. The Board adjusted rates in this district resulting in overall losses in the district of $13,810 and $13,037 in 2011 and 2010 respectively. The cash balance of this district totals $68,450 and is a combination of cash for restricted for capital replacement and cash for operations. The cash portion restricted for capital replacement totals $66,895, leaving the cash for operations at $1,555. The cash balances in the other districts are considered sufficient.

Future Accounting Standard Changes

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

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

Summary

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

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

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

How the Changes in This Statement Will Improve Financial Reporting

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

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

Summary

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

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

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

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

How the Changes in This Statement Will Improve Financial Reporting

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

Future Accounting Standard Changes - Continued

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

Summary

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

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

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

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

How the Changes in This Statement Will Improve Financial Reporting

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

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

Summary

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

How the Changes in This Statement Will Improve Financial Reporting

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

Future Accounting Standard Changes - Continued

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

Summary

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

How the Changes in This Statement Will Improve Financial Reporting

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

*** * * * * ***

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

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

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

Abdo, Eick & Meyers, LLP

February 20, 2012
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants