CREDIT RIVER TOWNSHIP
SCOTT COUNTY, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2012

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

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SCOTT COUNTY, MINNESOTA

MANAGEMENT LETTER

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ABDO
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Certified Public Accountants & Consultants

5201 Eden Avenue
Suite 250
Edina, MN 55436

February 21, 2013

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, 2012. 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 28, 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

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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2012-1 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.

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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.

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 statements No. 63 and 65 were adopted for the year ended December 31, 2012. 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 21, 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 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.

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, 2012.

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 decreased $31,825 in 2012. The total fund balance is $652,169 and $2,530 is nonspendable for prepaid items. The fund balance represents 127.9 percent of the 2013 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 50 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.

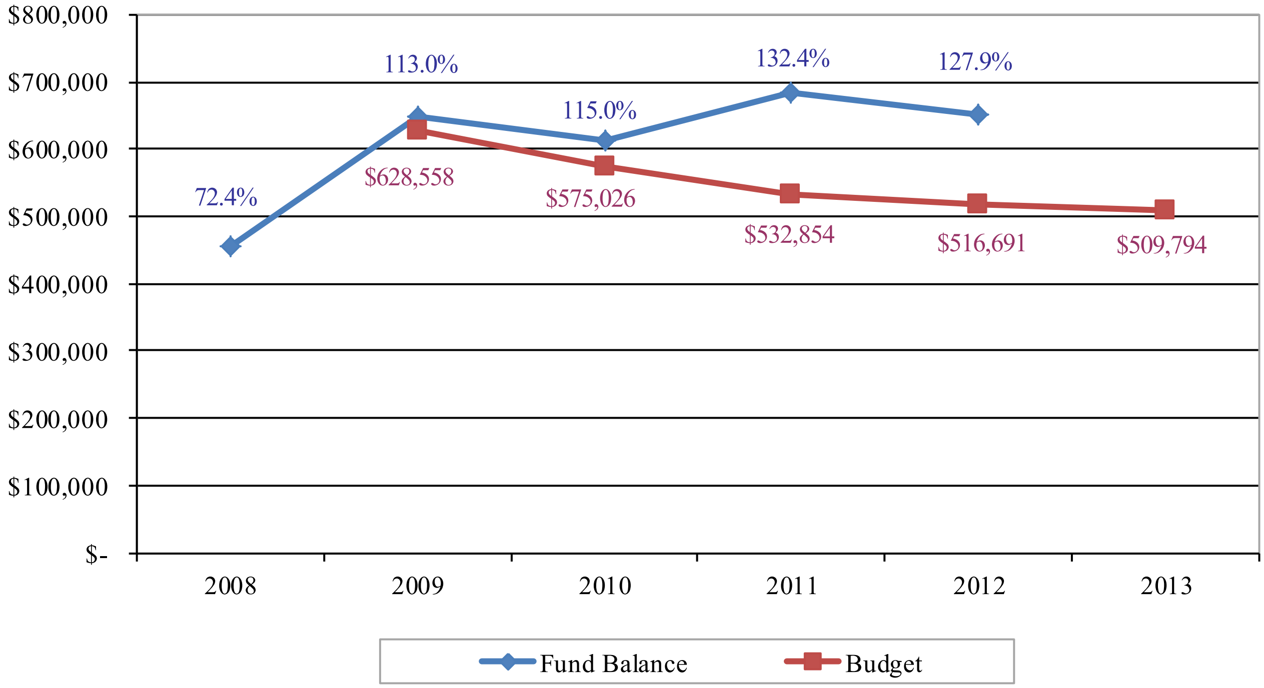
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Board action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.

- 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
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
2012	652,169	2013	509,794	127.9

Fund Balance as a Percent of Next Year's Budget



A summary of the 2012 operations is as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 400,000	$ 422,041	$ 22,041
Expenditures	516,691	453,866	62,825
Net change in fund balances	(116,691)	(31,825)	84,866
Fund balances, January 1	683,994	683,994	-
Fund balances, December 31	$ 567,303	$ 652,169	$ 84,866

A short analysis of budget variances follows:

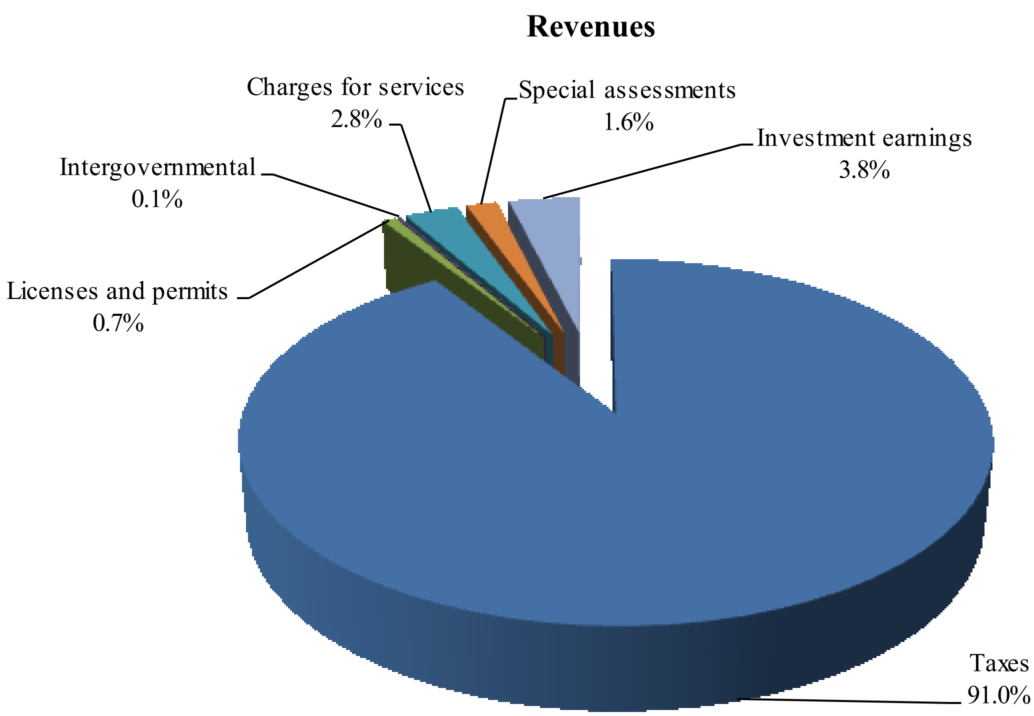
- Expenditures were under budget in all functions with the exception of capital outlay. Public works expenditures had the largest positive budget variance of $32,844 due to engineering costs not amounting to what was expected. Total expenditures were $62,825 under budget. Capital outlay was over budget by $1,622.

- Total revenues were over budget by $22,041 mainly due to receipt of special assessments not budgeted.

A summary of General fund revenues is as follows:

Source	2010	2011	2012	Percent of Total	Per Capita
Property taxes	$ 403,067	$ 503,044	$ 368,623	87.4 %	$ 72
Franchise taxes	7,759	13,240	15,305	3.6	3
Licenses and permits	7,230	4,849	3,150	0.7	1
Intergovernmental	-	2,238	412	0.1	-
Charges for services	15,166	10,327	11,835	2.8	2
Special assessments	-	644	6,820	1.6	1
Investment earnings	30,869	17,606	15,896	3.8	3
Transfers in	2,587	-	-	-	-
Total revenues	$ 466,678	$ 551,948	$ 422,041	100.0 %	$ 82

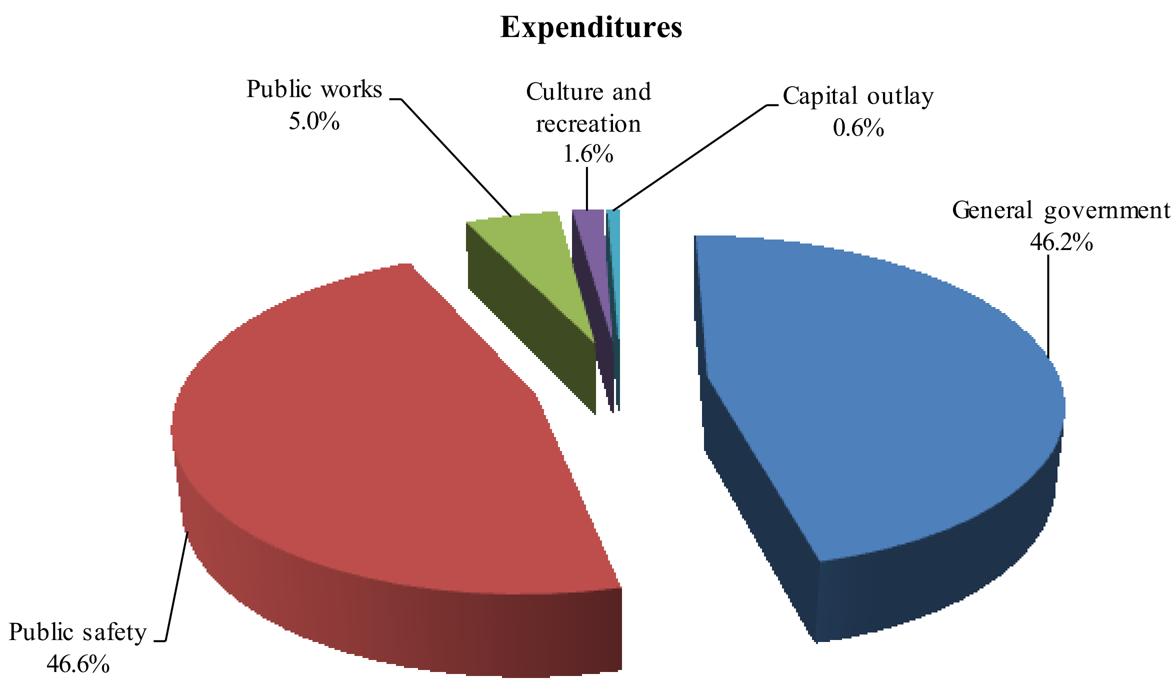
The sources of General fund revenues for 2012 are presented graphically as follows:



A summary of General fund expenditures is as follows:

Program	2010	2011	2012	Percent of Total	Per Capita
Current					
General government	$ 246,968	$ 217,304	$ 209,363	46.2 %	$ 41
Public safety	211,962	215,860	211,681	46.6	42
Public works	38,216	36,208	22,556	5.0	4
Culture and recreation	6,767	8,019	7,394	1.6	1
Total current	503,913	477,391	450,994	99.4	88
Capital outlay	20	3,360	2,872	0.6	1
Total expenditures	$ 503,933	$ 480,751	$ 453,866	100.0 %	$ 89

The program expenditures for 2012 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, 2012	Fund Balances December 31, 2011	Increase (Decrease)
Major			
Road and Bridge	$ 934,383	$ 876,553	$ 57,830
Nonmajor			
Park	139,187	132,699	6,488
Total special revenue funds	$ 1,073,570	$ 1,009,252	$ 64,318

The Road and Bridge fund had an overall increase in fund balance of $57,830. The fund has committed $221,481 for road and bridge improvements expected to be spent in future years. The rest of the fund balance, $712,902 is assigned for future road and bridge improvements.

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, 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:

Fund	Cash Balance	Total Assets	Debt Outstanding
2009 G.O. Improvement Bond Fund	$ 139,236	$ 337,775	$ 625,000
2012 G.O. Improvement Bond Fund	24,000	612,000	1,100,000
Total debt service funds	$ 163,236	$ 949,775	$ 1,725,000

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
2012	$ -	$ -	$ -	$ 163,236
2013	84,624	127,030	107,881	267,009
2014	95,684	118,104	206,458	274,339
2015	102,381	114,471	214,175	277,016
2016	108,702	110,838	216,471	280,085
2017	114,495	107,205	218,350	283,435
2018	125,091	104,816	219,742	293,600
2019	57,000	67,267	225,573	192,294
2020	62,600	65,150	117,485	202,559
2021	62,700	63,034	120,683	207,610
2022	67,800	60,917	131,643	204,684
2023	-	-	121,260	83,424

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 Township established the Monterey, Lynn and 207th Street fund in 2012. The fund will be used to track expenditures for the street improvement project.

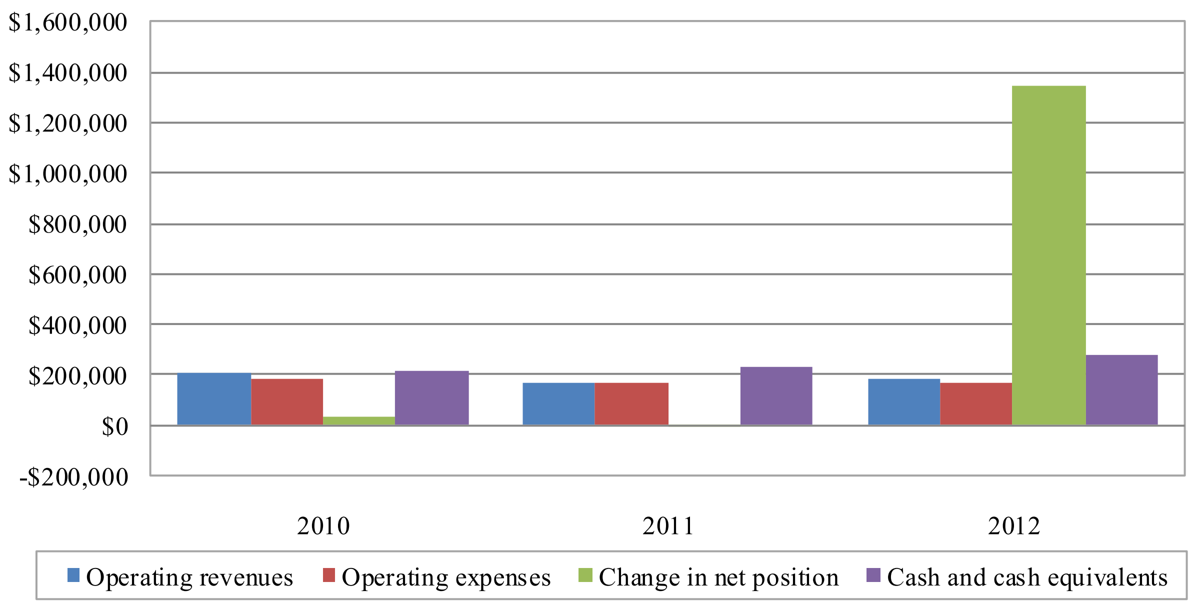
Fund	Fund Balances December 31, 2012	2011	Increase (Decrease)
Major			
Capital Improvements	$ 744,712	$ 465,513	$ 279,199
Monterey, Lynn and 207th Street	331,964	-	331,964
Total capital projects funds	$ 1,076,676	$ 465,513	$ 611,163

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

	2010		2011		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
Operating revenues	$ 206,784	100.0 %	$ 168,298	100.0 %	$ 183,092	100.0 %
Operating expenses	179,529	86.8	171,150	101.7	164,447	89.8
Operating income (loss)	27,255	13.2	(2,852)	(1.7)	18,645	10.2
Nonoperating revenues	1,984	1.0	854	0.5	867	0.5
Capital contributions	-	0.0	-	0.0	1,325,380	723.9
Change in net position	$ 29,239	14.2 %	$ (1,998)	(1.2) %	$ 1,344,892	734.6 %
Cash and temporary investments	$ 217,776		$ 230,383		$ 276,646	
Capital replacement and repair net position restriction	$ 104,811		$ 128,118		$ 157,954	



Operating margins are sufficient to keep pace with operating expenses. Monterey Heights/South Passage district reported a net operating income for the first time in the last three years. The district had operating net income of $4,451. The cash balance of this district totals $85,398 and is a combination of cash restricted for capital replacement and cash for operations. The cash portion restricted for capital replacement totals $75,263, leaving the cash for operations at $5,235. The Board adjusted rates in early 2012, which appears to be putting the district closer to keeping pace with operating expenses. 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. 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.

Future Accounting Standard Changes - Continued

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.

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.

* * * * * *

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 21, 2013
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants