Management Letter

Credit River Township

Scott County, Minnesota

For the Year Ended
December 31, 2014

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

People + Process. Going Beyond the Numbers

ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

February 15, 2015

Management and Board of Supervisors
Credit River Township
Scott County, Minnesota

We have audited the 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, 2014. 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 20, 2014. 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 over financial reporting (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

In planning and performing our audit of the financial statements, we considered the Township's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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 Minnesota statutes. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Township's compliance with those requirements. We noted no instances of noncompliance with Minnesota statues

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 policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed in 2014. We noted no transactions entered into by the Township 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 and allocation of payroll.

- 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 the Board within the Township's budget and are derived from each employee's estimated time to be spent servicing the respective functions of the Township.

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.

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 15, 2015.

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 Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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, 2014.

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 total General fund balance decreased $61,346 in 2014. The total ending fund balance is $492,522 and $1,648 is nonspendable for prepaid items with the remaining fund balance being unassigned. The fund balance represents 103.5 percent of the 2015 budgeted expenditures. At the current level, the Township has over one 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.

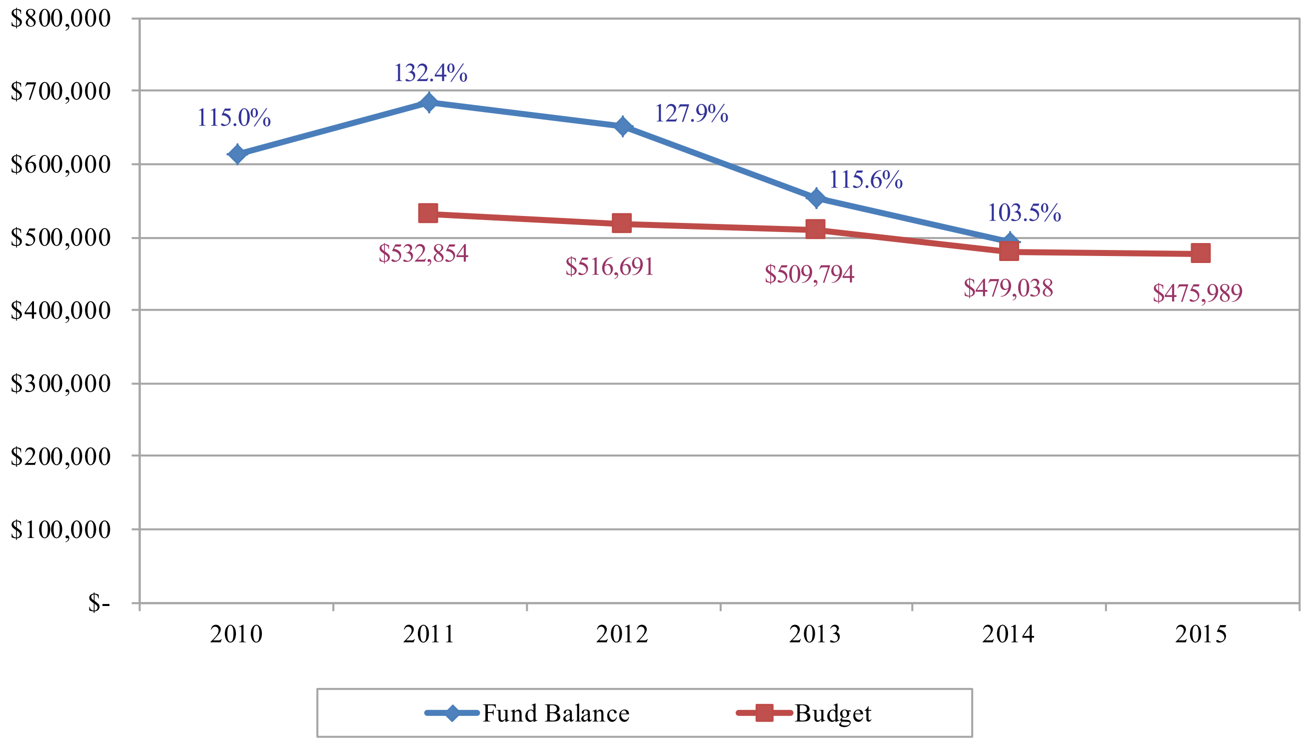
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Board action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.

- 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
2010	$ 612,797	2011	$ 532,854	115.0 %
2011	683,994	2012	516,691	132.4
2012	652,169	2013	509,794	127.9
2013	553,868	2014	479,038	115.6
2014	492,522	2015	475,989	103.5

Fund Balance as a Percent of Next Year's Budget



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A summary of the 2014 operations is as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 442,276	$ 452,929	$ 10,653
Expenditures	479,038	514,275	(35,237)
Net change in fund balances	(36,762)	(61,346)	(24,584)
Fund balances, January 1	553,868	553,868	-
Fund balances, December 31	$ 517,106	$ 492,522	$ (24,584)

A short analysis of budget variances follows:

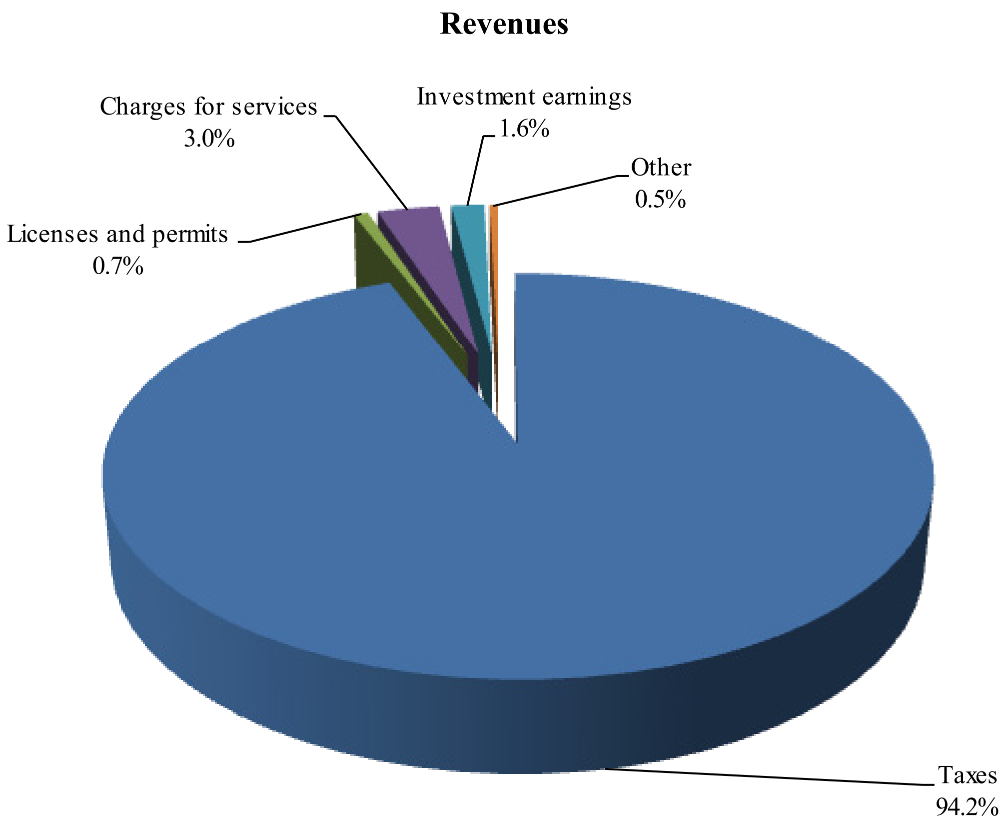
- Expenditures were over budget in total by $35,237. The main reason for the variance was public works expenditures being over budget $45,587 due to repairs and maintenance related to drainage and ditch work. Public safety was also over budget by $10,394.

- Total revenues were over budget by $10,653 mainly due to charges for services which had a positive budget variance of $5,917.

A summary of General fund revenues is as follows:

Source	2012	2013	2014	Percent of Total	Per Capita
Property taxes	$ 368,623	$ 357,609	$ 407,340	89.9 %	$ 75
Franchise taxes	15,305	17,773	19,586	4.3	4
Licenses and permits	3,150	3,550	3,150	0.7	1
Intergovernmental	412	408	623	0.1	-
Charges for services	11,835	12,081	13,517	3.0	2
Special assessments	6,820	-	-	-	-
Investment earnings	15,896	10,063	7,055	1.6	1
Miscellaneous	-	929	1,658	0.4	-
Total revenues	$ 422,041	$ 402,413	$ 452,929	100.0 %	$ 83

The sources of General fund revenues for 2014 are presented graphically as follows:



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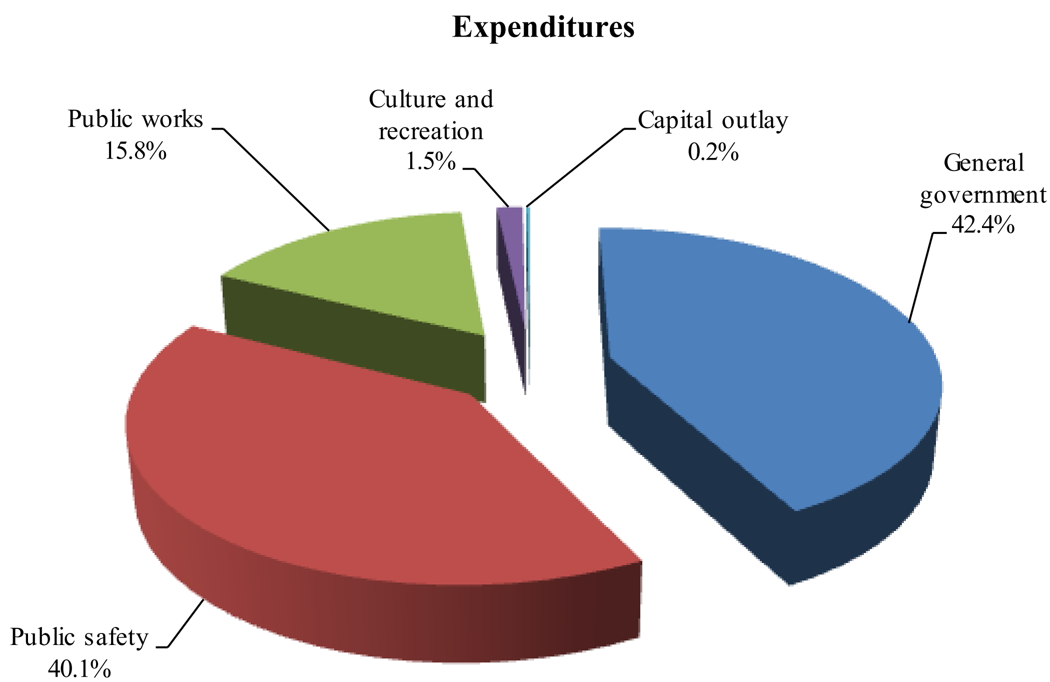
A summary of General fund expenditures is as follows:

Program	2012	2013	2014	Percent of Total	Per Capita
Current					
General government	$ 209,363	$ 214,682	$ 217,954	42.4 %	$ 40
Public safety	211,681	223,311	206,312	40.1	38
Public works	22,556	47,342	81,237	15.8	15
Culture and recreation	7,394	14,713	7,545	1.5	1
Total current	450,994	500,048	513,048	99.8	94
Capital outlay	2,872	666	1,227	0.2	-
Total expenditures	$ 453,866	$ 500,714	$ 514,275	100.0 %	$ 94

The program expenditures for 2014 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, 2014	Fund Balances December 31, 2013	Increase (Decrease)
Major			
Road and Bridge	$ 987,632	$ 958,643	$ 28,989
Nonmajor			
Park	132,263	143,439	(11,176)
Total special revenue funds	$ 1,119,895	$ 1,102,082	$ 17,813

The Road and Bridge fund had an overall increase in fund balance of $28,989. The fund has a committed fund balance of $238,429 for road and bridge improvements expected to be spent in future years. The remaining fund balance is assigned for future road and bridge improvements. The Park funds fund balance decreased due to the purchase of playground equipment.

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	Final Maturity Date
2009 G.O. Improvement Bond Fund	$ 142,847	$ 267,225	$ 465,000	2019
2012 G.O. Improvement Bond Fund	171,254	625,803	1,000,000	2023
Total debt service funds	$ 314,101	$ 893,028	$ 1,465,000	

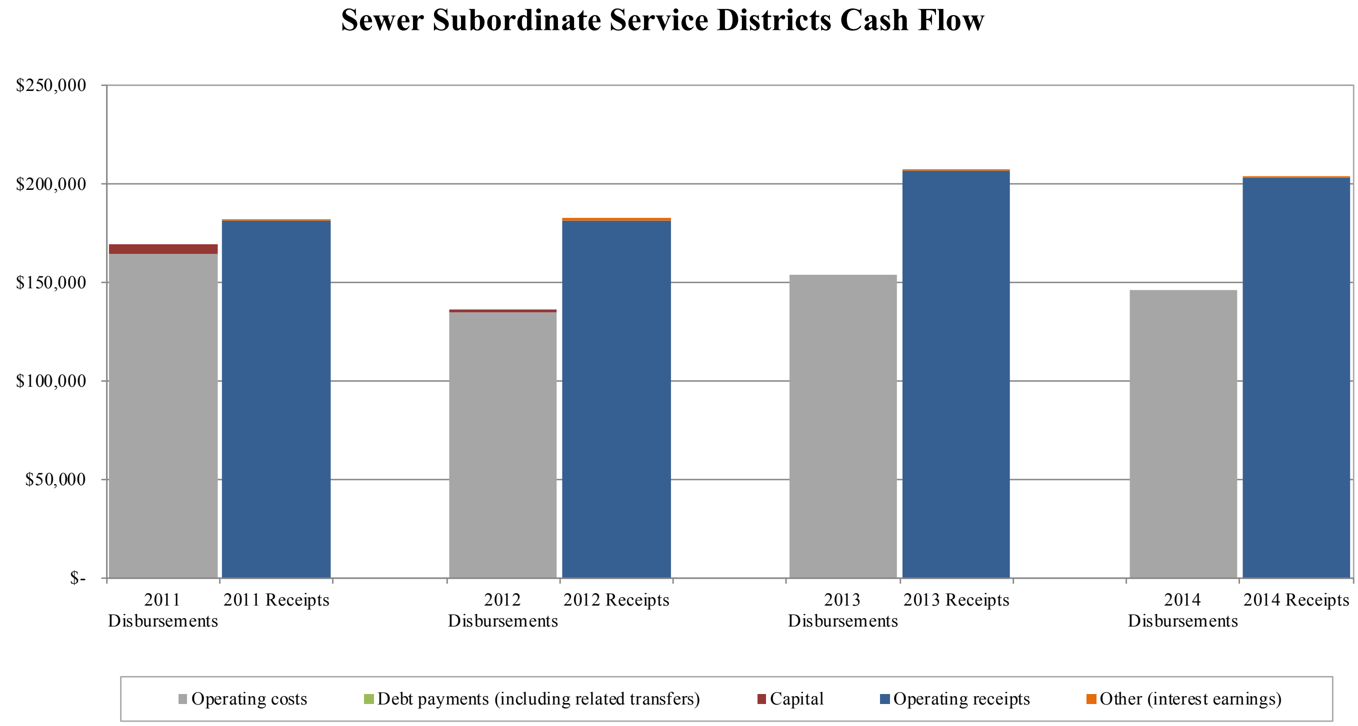
Capital Projects Funds

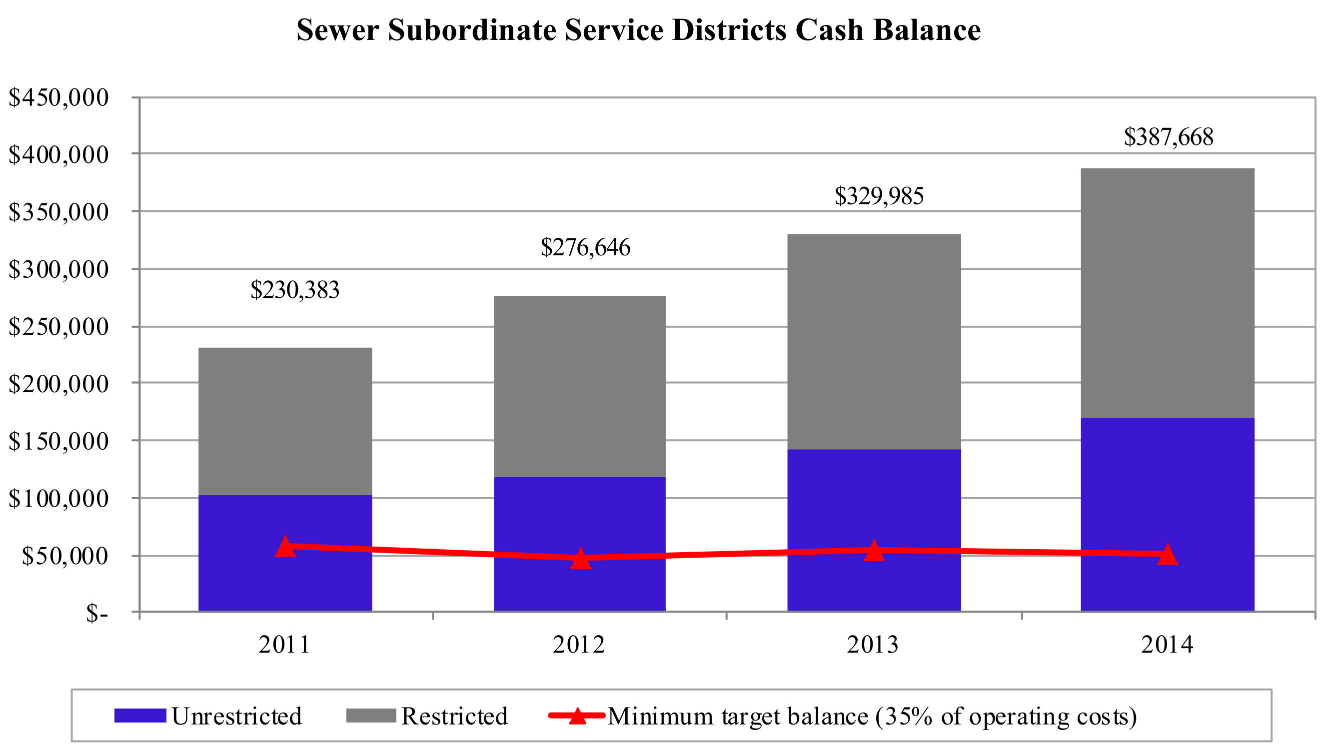
The Township established the Capital Improvements fund in 2011 through transferring funds from the Road and Bridge special revenue fund. The Capital Improvements fund will be used for future capital projects. The Township established the Monterey, Lynn and 207th Street fund in 2012. The fund will be used to track expenditures for the street improvement project. The Capital Improvements fund balance decreased due to costs related to the Fern & Birch project, Hampshire Overlay and Residential Overlay 2014.

Fund	Fund Balances December 31, 2014	2013	Increase (Decrease)
Major			
Capital Improvements	$ 238,114	$ 598,963	$ (360,849)
Nonmajor			
Monterey, Lynn and 207th Street	64,211	68,961	(4,750)
Total capital projects funds	$ 302,325	$ 667,924	$ (365,599)

Sewer Subordinate Service Districts

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.





The sewer fund continues to operate with operating revenues exceeding operating expenses. The three districts as a whole have enough cash to cover operations and continue to set aside reserves for future capital purchases. The sewer fund restricted cash balance is for capital replacement and repair. For a view of the individual districts progress see the following page. The graph below represents the net increase/decrease in cash and cash equivalents.

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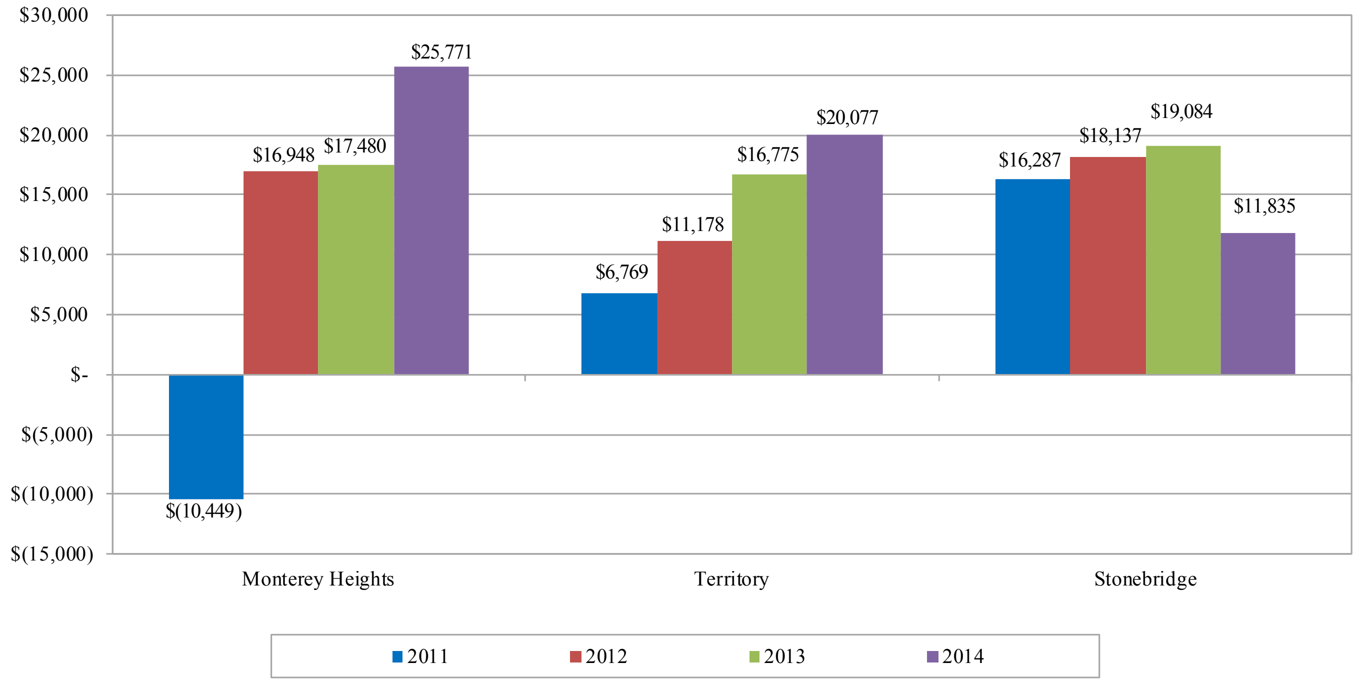
Annual Cash Increase/Decrease of Districts



- Monterey Heights/South Passage has an ending net position of $252,379, $92,727 of which is restricted for future capital purchases. The cash balance in the district has increased in each of the past three years. The cash balance in the district is sufficient cover roughly five months of expenditures.

- Territory district has an ending net position of $2,120,032, $90,822 of which is restricted for future capital purchases. The cash balance in the district has increased in each of the past three years. The ending cash balance of the district increased $16,775 and $20,077 in 2013 and 2014, respectively. The cash balance is sufficient to cover roughly five months of operating expenses.

- Stonebridge district has an ending net position of $363,331, $34,555 of which is restricted for future capital purchases. The cash balance in the district is sufficient and enough to cover more than one year's worth of expenditures.

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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: [1]

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.

GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measure Date - an Amendment of GASB Statement No. 68*

Summary

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

Future Accounting Standard Changes - Continued

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

[1] *Note*. From GASB Pronouncements Summaries. Copyright 2014 by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is reproduced with permission.

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This communication 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

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
February 15, 2015