



CREDIT RIVER TOWNSHIP
SCOTT COUNTY, MINNESOTA

MANAGEMENT LETTER

YEAR ENDED
DECEMBER 31, 2009

5201 Eden Avenue
Suite 370
Edina, MN 55436

Management and Board of Supervisors
Credit River Township, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, fiduciary fund, each major fund, and the aggregate remaining fund information of Credit River Township, Minnesota (the Township) for the year ended December 31, 2009, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated February 22, 2010. Professional standards require that we provide you with 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 would not necessarily 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 a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 consider the following deficiency to be a material weakness in internal control over financial reporting:

**2009-1: Preparation of Financial Statements (Finding since 2008)**

- 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 CTAS and 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.



Summary of Prior Year Findings

2008-1 Collateral Coverage

Condition: Auditing for legal compliance requires a review of the Township's deposits and investments. Our study indicated an instance of non-compliance that we believe is required to be remedied.

Criteria: In accordance with Minnesota statute, section 118A.03, the Township is required to have pledged collateral equal to 110 percent of the deposit not covered with insurance.

Current year status: The finding has been corrected.

2008-2 Limited Segregation of Duties - Utility Billing

Condition: During our audit we reviewed procedures over utility billing and found the Township to have limited segregation of duties related to this transaction cycle.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Current year status: The finding has been corrected.

2008-4 Prior Period Adjustment

Condition: During our audit, a prior period adjustment was needed to correct beginning infrastructure capital assets.

Criteria: The financial statements are the responsibility of the Township's management; therefore, the Township must be able to prevent or detect a material misstatement in the financial statements including footnote disclosures.

Current year status: The finding has been corrected.

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. No new accounting policies were adopted and the application of existing policies was not changed during the year. 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 the financial statements taken as a whole. In total, we prepared 26 journal entries. These entries are necessary to adjust balances to the proper year end amount. It is important that the Township understand these entries and prepare to make them in the future. In addition to keeping audit costs down, internal preparation enhances the quality of internal information.

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 22, 2010.

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, 2009.

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 \$194,668 in 2009. The total fund balance is \$650,052 and \$1,982 is reserved for prepaid items. The fund balance represents 113 percent of the 2010 budgeted expenditures. We recommend a minimum fund balance for working capital be approximately 35 percent to 50 percent of planned expenditures.

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 Office of the State Auditor (the OSA) has issued a *Statement of Position* relating to fund balance stating "a local government should identify fund balance separately between reserved and unreserved fund balance. The local government may assign and report some or all of the fund balance as designated and undesignated." We recommend local governments adopt a formal policy on the level of unreserved fund balance that should be maintained in the general and special revenue funds. This helps address citizen concerns as to the use of fund balance and tax levels. The Township's adopted policy in 2009 indicates a goal of a year-end unreserved fund balance to be 50 percent of the forecasted operating expenditures for the following year for both the General and the Road and Bridge funds.

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

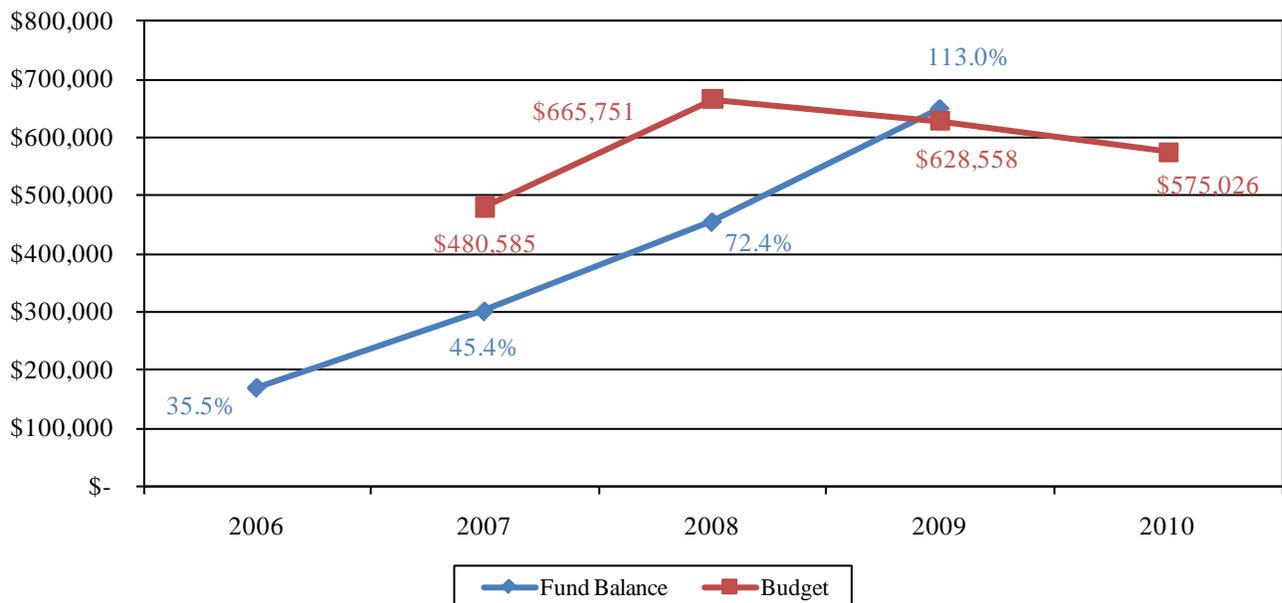
- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.
- The Township is vulnerable to 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 2009 and more reductions are anticipated for 2010. 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
2006	\$ 170,718	2007	\$ 480,585	35.5 %
2007	302,003	2008	665,751	45.4
2008	455,384	2009	628,558	72.4
2009	650,052	2010	575,026	113.0

Fund Balance as a Percent of Next Year's Budget





A summary of the 2009 operations is as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues	\$ 628,558	\$ 670,076	\$ 41,518
Expenditures	<u>628,558</u>	<u>479,197</u>	<u>149,361</u>
Excess of revenues over expenditures	-	190,879	190,879
Fund balances, January 1	<u>455,384</u>	<u>455,384</u>	<u>-</u>
Fund balances, December 31	<u>\$ 455,384</u>	<u>\$ 646,263</u>	<u>\$ 190,879</u>

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 \$78,435 due to anticipating incorporation studies that the township decided not to complete. Total expenditures were \$149,361 under budget.
- The Township's revenue budget included a budget for market value property tax credits. The amount is calculated by the State and reduces the property taxes levied to residents, thereby reducing the tax amount you will receive through the county property tax settlements. The budget in 2009 included the full levy in the property tax budget line item and included the market value credit budget, in essence budgeting it twice. We recommend, subtracting the estimated amount that will be received through market value credit out of the levy budget line item. The two line items together should equal the total levy for the fund.

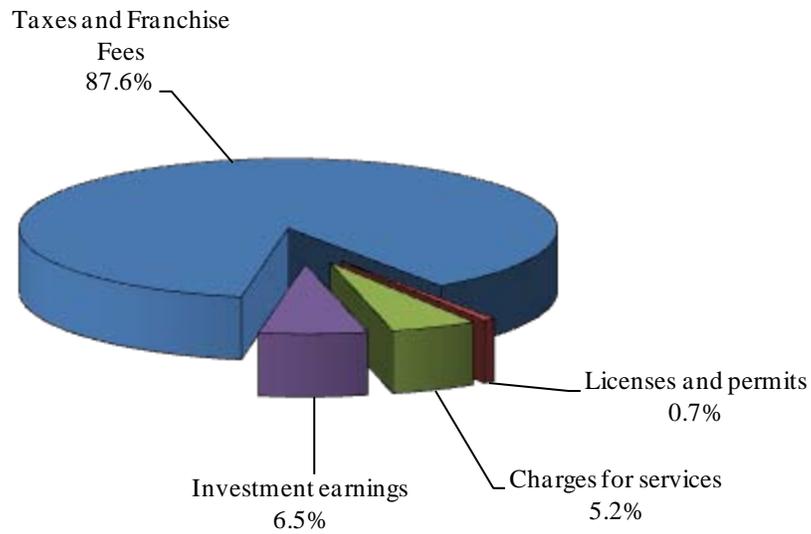


A summary of General fund revenues is as follows:

Source	2008	2009	Percent of Total	Per Capita
Property taxes	\$ 592,259	\$ 579,913	86.5 %	\$ 112
Franchise taxes	3,826	7,453	1.1	1
Licenses and permits	2,440	4,553	0.7	1
Intergovernmental	8,309	-	-	-
Charges for services	26,725	34,540	5.2	7
Investment earnings	36,601	43,607	6.5	8
Miscellaneous	36	10	-	-
Total revenues	\$ 670,196	\$ 670,076	100.0 %	\$ 129

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

Revenues



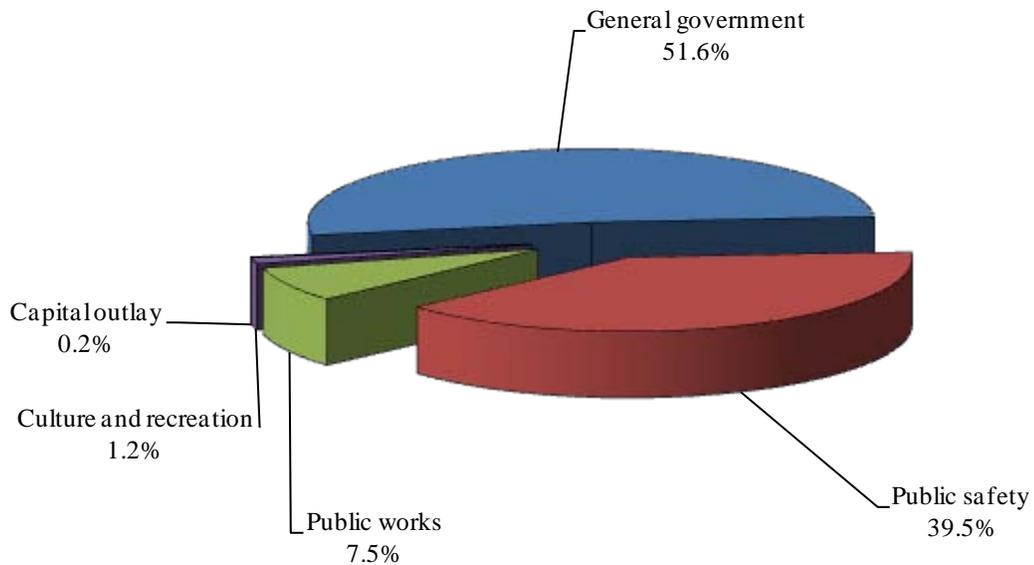


A summary of General fund expenditures is as follows:

Program	2008	2009	Percent of Total	Per Capita
Current				
General government	\$ 294,310	\$ 247,118	51.6 %	\$ 48
Public safety	177,427	189,354	39.5	37
Public works	38,129	36,139	7.5	7
Culture and recreation	6,604	5,839	1.2	1
Total current	516,470	478,450	99.8	93
Capital outlay	345	747	0.2	-
Total expenditures	<u>\$ 516,815</u>	<u>\$ 479,197</u>	<u>100.0 %</u>	<u>\$ 93</u>

The program expenditures are presented graphically as follows:

Expenditures





Special Revenue Funds

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

Fund	Fund Balances December 31,		Increase (Decrease)
	2009	2008	
Major			
Road and Bridge	\$ 822,986	\$ 582,101	\$ 240,885
Nonmajor			
Met Council Loan	41,741	40,913	828
Park	122,372	129,889	(7,517)
Total nonmajor	164,113	170,802	(6,689)
Total	\$ 987,099	\$ 752,903	\$ 234,196

The Road and Bridge fund had an increase in fund balance from 2008 primarily due to expenditures being less than anticipated. The Streets department's operating expenditures were \$32,357 under budget in addition to the capital outlay budget \$59,601 under budget.

Capital Projects Fund

The Township maintains the following Capital Projects fund:

Fund	Fund Balances December 31,		Increase (Decrease)
	2009	2008	
Major			
Whitewood Birch	\$ (22,870)	\$ (309,654)	\$ 286,784
Huntington Way	9,315	(213,942)	223,257
Total major	(13,555)	(523,596)	510,041
Nonmajor			
Judicial Road	(464)	(101,469)	101,005
Total nonmajor	(464)	(101,469)	101,005
Total	\$ (14,019)	\$ (625,065)	\$ 611,046

The Township should monitor the activity in the capital project funds to ensure that future revenues and transfers will be sufficient to remove the deficit fund balances. Once the projects in each of the funds are complete, the board should approve closing any remaining project costs into the debt service 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 municipal 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 (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

A comparison of the assets of the debt service fund is as follows:

	<u>Cash Balance</u>	<u>Total Assets</u>	<u>Debt Outstanding</u>
Improvement Bond Fund	<u>\$ 138,533</u>	<u>\$ 472,143</u>	<u>\$ 855,000</u>

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 payments continue through 2019.

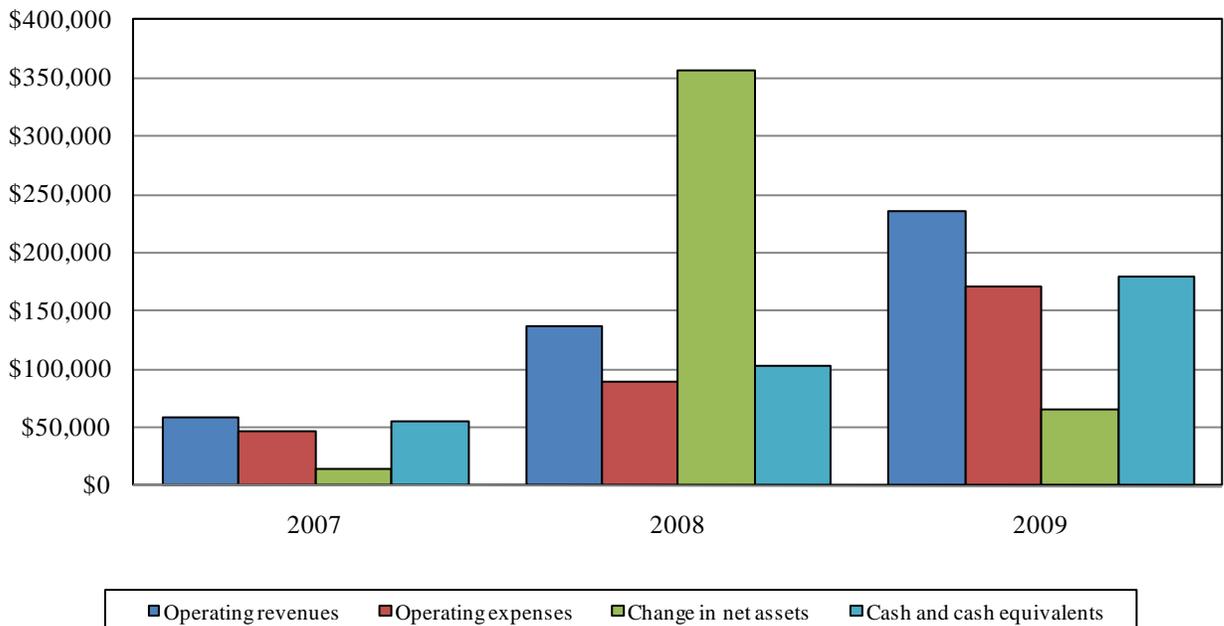


Enterprise Funds

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

	2007		2008		2009	
	Amount	Percent	Amount	Percent	Amount	Percent
Operating revenues	\$ 59,266	100.0 %	\$ 136,493	100.0 %	\$ 235,531	100.0 %
Operating expenses	47,170	79.6	89,258	65.4	170,793	72.5
Operating income	12,096	20.4	47,235	34.6	64,738	27.5
Nonoperating revenues	1,807	3.0	3,583	2.6	1,218	0.5
Transfers out	-	0.0	-	0.0	(3,789)	-2.2
Capital contributions	-	0.0	306,400	224.5	-	0.0
Change in net assets	<u>\$ 13,903</u>	<u>23.4 %</u>	<u>\$ 357,218</u>	<u>261.7 %</u>	<u>\$ 65,956</u>	<u>25.8 %</u>
Cash and temporary investments	<u>\$ 55,325</u>		<u>\$ 102,797</u>		<u>\$ 179,103</u>	
Capital replacement and repair net asset restriction	<u>\$ -</u>		<u>\$ 16,928</u>		<u>\$ 73,536</u>	



Operating margins are sufficient to keep pace with operating expenses. The cash balance has increased significantly over the prior year due to adding two subordinate districts in 2008.



Other Items

Control over Township Data

During the audit, it came to our attention that three checks were lost after being issued within one payment batch. Although none of the checks cleared the bank and it is unclear how the checks were lost, we recommend the Township implement certain procedures to help avoid this in the future. The Minnesota Government Data Practices Act (Data Practices Act) requires that all data collected, created, received, maintained or disseminated be controlled by the Township. Under the current practice checks are not fully endorsed at the Town Hall. We recommend the endorsements on checks be completed at the Town Hall and mail them directly from the Township Office. This will not result in any additional cost to the Township and will ensure that the Township is in control of their data at all times.

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. 54 - Fund Balance

This statement was issued in March of 2009 and is effective for periods beginning after June 15, 2010.

This new standard is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and clarifying the definitions of existing governmental fund types.

GASB No. 54 distinguishes fund balance between amounts that are considered non-spendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. The following classifications and definitions will be used:

- *Restricted* - amounts constrained by external parties, constitutional provision, or enabling legislation
- *Committed* - amounts constrained by a government using its highest level of decision-making authority
- *Assigned* - amounts a government intends to use for a particular purpose
- *Unassigned* - amounts that are not constrained at all will be reported in the general fund.

In addition to the classifications of fund balance, the standard clarified the definitions of individual governmental fund types, for example, special revenue funds, debt service funds, and capital project funds.



* * * * *

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
Certified Public Accountants

February 22, 2010
Minneapolis, Minnesota