



CITY OF PRIOR LAKE
PRIOR LAKE, MINNESOTA

MANAGEMENT LETTER

YEAR ENDED
DECEMBER 31, 2008



5201 Eden Avenue
Suite 370
Edina, MN 55436

Management, Honorable Mayor and City Council
City of Prior Lake
Prior Lake, 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 the City of Prior Lake, Minnesota (the City) for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 11, 2009. 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 over financial reporting of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control over financial reporting. 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

**2008-1 Limited Segregation of Duties (finding since 2007)**

- Condition:* During our audit, we reviewed procedures over investments, cash disbursements, cash receipts, capital assets and payroll and found the City to have limited segregation of duties related to these procedures.
- 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.
- Cause:*
- Investments:* During the year the finance director initiated the investment transactions, maintained and posted activity to the finance system and reconciled the investment accounts.
- Cash disbursements:* During the year, the accounting clerk had access to the check stock, prepared the checks, entered transactions into the accounting system, had access to the City's automated check signing machine and had bank reconciliation responsibilities.
- Cash receipts:* During the year, the accounting clerk had responsibility over setting up vendors, opening the mail, posting transactions to the general ledger, preparing the deposit and reconciling the bank account.
- Capital Assets:* During the year, the accounting clerk had responsibility over tracking capital assets purchases, recording and reconciling the activity.
- Payroll:* During the year, the accounting supervisor set up employee records, ran payroll, approved payroll, posted transactions to the general ledger, prepared checks, initiated direct deposit and prepared the quarterly tax returns.
- Effect:* The existence of this limited segregation of duties increases the risk of fraud and error.
- Recommendation:* The current system is very efficient but we recommend that the City review processes and consider modifying procedures to ensure a better separation is created.
- Management Response:* Management recognizes that it is not economically feasible to correct this finding, is aware of the deficiency, is in the process of implementing compensating controls, and is relying on oversight by management and the Council to monitor this deficiency.



2008-2 Preparation of Financial Statements (finding since 2007)

- Condition:* As in prior years, 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 Council 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 financial reporting.
- Cause:* From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization 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.
- Recommendation:* It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they 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. While the City is reviewing the financial statements we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
- Management Response:* For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control over financial reporting. We believe that none of the deficiencies listed above constitute a material weakness.

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, the objective of our tests was not to provide an opinion on compliance with such provisions. 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 City are described in Note 1 to the financial statements. The requirements of GASB 45 were adopted during the year. We noted no transaction entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 assumption 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. Depreciation on capital assets is an estimate based on the planned useful lives of the City's capital assets.

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. There were no entries that would meet the requirements discussed above.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 11, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

The following are areas that came to our attention during the audit that we feel should be reviewed:

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 City's financial statements for the year ended December 31, 2008.

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 General fund balance increased \$468,769 from 2007. The fund balance of \$5,489,435 is 44percent of the 2009 budgeted expenditures. We recommend the fund balance be maintained at a level sufficient to fund operations until the major revenue sources are received in June. We feel a reserve of approximately 35 to 50 percent of planned expenditures and transfers out is adequate to meet working capital and small emergency needs.

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." The OSA also recommends 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 purposes and benefits of a fund balance are as follows:

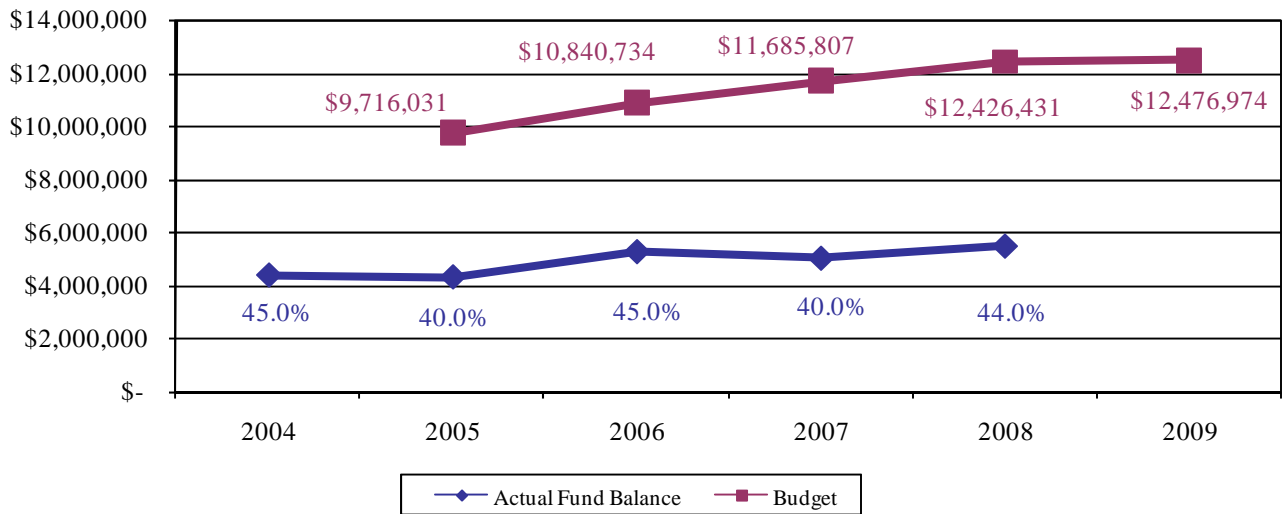
- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.
- The City is vulnerable to legislative actions at the State and Federal level. The State continually adjusts the local government aid and property tax credit formulas. We also have seen the State mandate levy limits for cities over 2,500 in population. An adequate fund balance will provide a temporary buffer against those aid adjustments or levy limits.
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Council 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 City in obtaining, maintaining or improving 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	Unreserved Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2004	\$ 4,370,829	2005	\$ 9,716,031	45.0 %
2005	4,297,370	2006	10,840,734	40.0
2006	5,276,400	2007	11,685,807	45.0
2007	5,020,666	2008	12,426,431	40.0
2008	5,489,435	2009	12,476,974	44.0

Fund Balance as a Percent of Budget





The 2008 operations are summarized as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues	\$ 12,126,431	\$ 11,721,394	\$ (405,037)
Expenditures	10,849,950	9,976,350	873,600
Excess of revenues over expenditures	1,276,481	1,745,044	468,563
Other financing sources (uses)			
Transfers in	300,000	300,000	-
Transfers out	(1,576,481)	(1,576,275)	206
Total other financing sources (uses)	(1,276,481)	(1,276,275)	206
Net change in fund balances	-	468,769	468,769
Fund balances, January 1	5,020,666	5,020,666	-
Fund balances, December 31	\$ 5,020,666	\$ 5,489,435	\$ 468,769

- The largest revenue variances were as follows:
 - Taxes were \$184 thousand under budget
 - License and permits were \$170 thousand under budget
- The largest expenditure variances were as follows:
 - Fire department was \$135 thousand under budget, mainly in other services and charges
 - Contingency reserve was \$185 thousand under budget

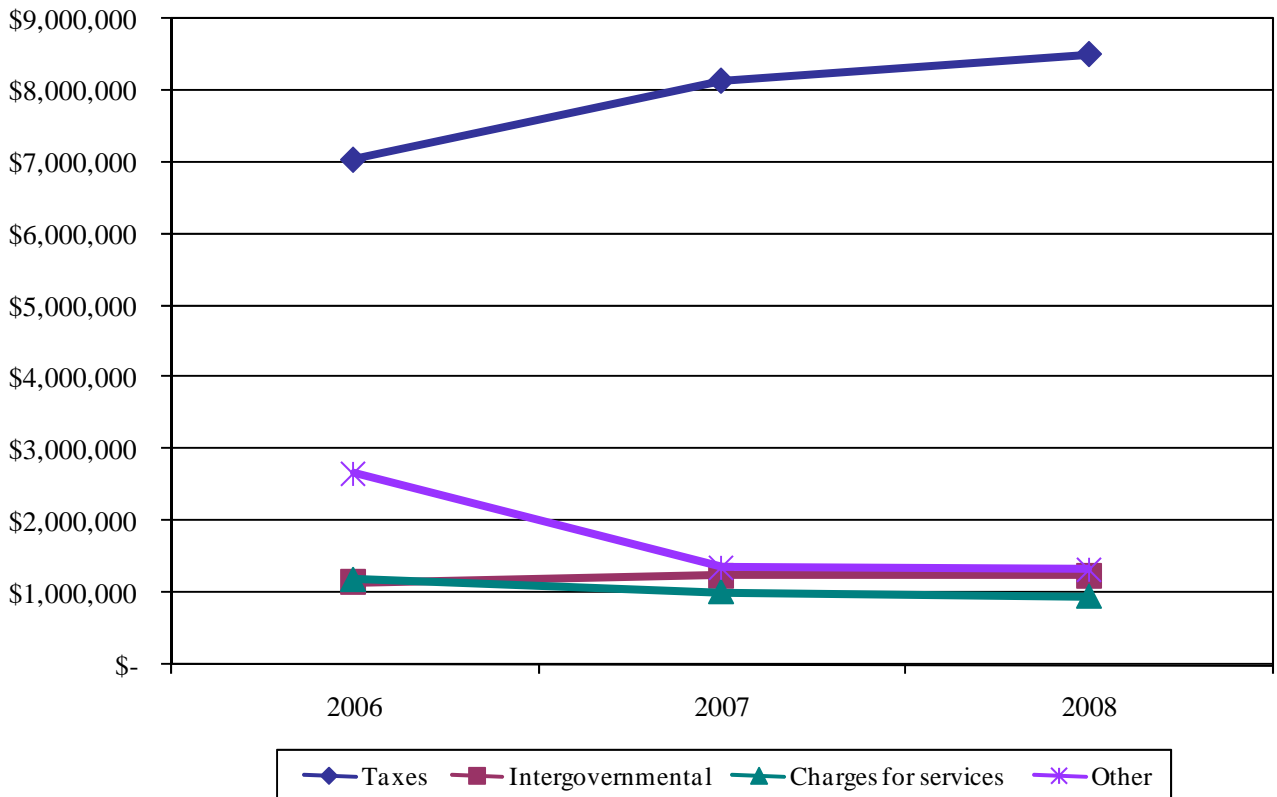


A more detailed comparison of actual General fund revenues and transfers with the prior three years is as follows:

Source	2006	2007	2008	Percent of Total
Taxes	\$ 7,045,404	\$ 8,132,478	\$ 8,498,514	70.7 %
Licenses and permits	832,610	517,662	455,955	3.8
Intergovernmental	1,155,058	1,240,355	1,239,244	10.3
Charges for services	1,193,084	1,016,212	952,319	7.9
Fines and forfeitures	194,641	190,650	192,428	1.6
Interest on investments	211,079	288,869	278,478	2.3
Miscellaneous	1,147,283	112,733	104,456	0.9
Transfers in	280,000	250,000	300,000	2.5
Total revenues and transfers	\$ 12,059,159	\$ 11,748,959	\$ 12,021,394	100.0 %

The past three years revenues and transfers are graphically presented as follows:

Revenues and Transfers



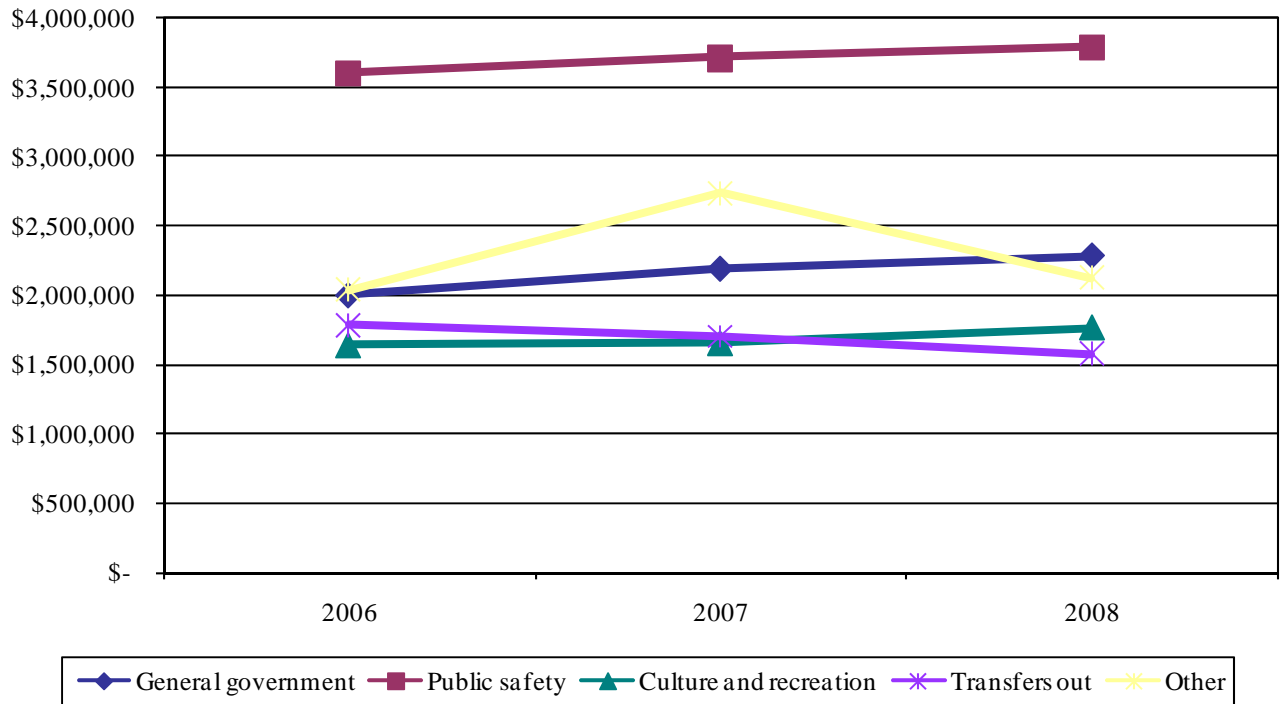


A more detailed comparison of actual expenditures and transfers with the prior three years is as follows:

Program	2006	2007	2008	Percent of Total
Current				
General government	\$ 2,001,747	\$ 2,192,485	\$ 2,288,191	19.9 %
Public safety	3,609,424	3,716,013	3,793,626	32.8
Public works	1,520,959	1,734,375	1,724,639	14.9
Culture and recreation	1,639,960	1,655,042	1,768,109	15.3
Economic development	145,042	109,632	110,567	1.0
Contingency	141,674	107,498	90,000	0.8
Total current	9,058,806	9,515,045	9,775,132	84.7
Capital outlay	230,761	786,210	201,218	1.7
Transfers out	1,790,562	1,703,438	1,576,275	13.6
Total expenditures and transfers	\$ 11,080,129	\$ 12,004,693	\$ 11,552,625	100.0 %

The prior three years expenditures and transfers are graphically presented as follows:

Expenditures and Transfers





Nonmajor Special Revenue Funds

Nonmajor special revenue funds are used to account for revenue that is to be used for a specific purpose. A summary of the special revenue funds and fund balances is shown below:

Fund	Fund Balances December 31,		Increase (Decrease)
	2008	2007	
Capital Park	\$ 98,637	\$ 74,468	\$ 24,169
Severance Compensation	310,892	369,393	(58,501)
EDC Revolving Loan	102,107	95,012	7,095
ED MN Revolving Loan	79,292	73,782	5,510
DAG	760,078	849,811	(89,733)
Cable Franchise	29,247	39,425	(10,178)
EDA	97,149	95,366	1,783
Total	<u>\$ 1,477,402</u>	<u>\$ 1,597,257</u>	<u>\$ (119,855)</u>



Capital Projects Funds

The following funds account for capital projects:

Fund	Fund Balances (Deficits)		Increase (Decrease)
	December 31,		
	2008	2007	
Major			
Construction	\$ 744,631	\$ 811,968	\$ (67,337)
Trunk Reserve	1,026,109	1,322,544	(296,435)
Water Storage	486,845	9,912,602	(9,425,757)
Subtotal	<u>2,257,585</u>	<u>12,047,114</u>	<u>(9,789,529)</u>
Nonmajor			
Downtown Redevelopment	37,152	34,570	2,582
Tax Increment	115,095	86,927	28,168
Revolving Equipment	1,618,515	1,223,235	395,280
Street Oversizing	461,805	54,010	407,795
Tax Increment 1-3 Lakefront	63,053	46,516	16,537
Tax Increment 3-1 Creekside	30,471	20,695	9,776
Tax Increment 4-1	2,083	941	1,142
Tax increment 6-1 Shephards Path	14,766	130	14,636
Building	310,340	2,073,162	(1,762,822)
Subtotal	<u>2,653,280</u>	<u>3,540,186</u>	<u>(886,906)</u>
Total	<u>\$ 4,910,865</u>	<u>\$ 15,587,300</u>	<u>\$ (10,676,435)</u>



Debt Service Funds

Debt service funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt (other than enterprise fund debt).

Debt service funds may have one or a combination of the following revenue sources pledged to retire debt as follows:

- Property taxes - Primarily for general City benefit projects such as parks and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.
- Tax increments - Pledged exclusively for tax increment/economic development districts.
- Capitalized interest portion of bond proceeds - After the sale of bonds, the project may not produce revenue (tax increments or special assessments) for a period of one to two years. Bonds are issued with this timing difference considered in the form of capitalized interest.
- Special assessments - Charges to benefited properties for various improvements.

In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- Residual project proceeds from the related capital projects fund
- Investment earnings
- State or federal grants
- Transfers from other funds



All bonds have adequate resources at year end to pay their obligations. The table below summarizes the obligations outstanding.

Description	Total Cash	Total Assets	Bonds Outstanding	Maturity Date
314 Fire Hall Bonds	\$ -	\$ -	\$ 3,600,000	2031
316 Park Referndum	-	-	5,365,000	2017
317 City Hall 2005	-	-	9,625,000	2029
318 Fire Station #2	-	-	815,000	2013
350 Water Revenue PW Building	-	-	945,000	2014
351 Water Treatment Plant	-	-	8,400,000	2032
541 Duluth	-	-	-	2008
542 Candy Cove	75,642	89,874	125,000	2009
543 Oak Ridge	144,221	193,208	250,000	2010
545 Frog Town	161,180	190,932	335,000	2011
546 Pixie Point	184,090	241,755	450,000	2012
547 150th Mitchell Condons	124,172	496,735	1,000,000	2013
549 Tax Increment 2004	23,502	23,502	340,000	2024
550 Breezy Point	410,869	803,487	1,650,000	2014
551 Fish Point	873,948	1,953,461	1,770,000	2015
553 CSAH 82	4,412	5,401	1,140,000	2017
554 Street Reconstruction Bonds	5,637	6,939	1,285,000	2017
555 Brooksville Hills 2008	83,123	510,165	1,300,000	2017
Total	<u>\$ 2,090,796</u>	<u>\$ 4,515,459</u>	<u>\$ 38,395,000</u>	

The Finance Director reviews the outstanding balance and evaluates the amount needed for levy each year. This is a good practice and ensures the City will have sufficient resources to provide for future debt service.



Enterprise Funds

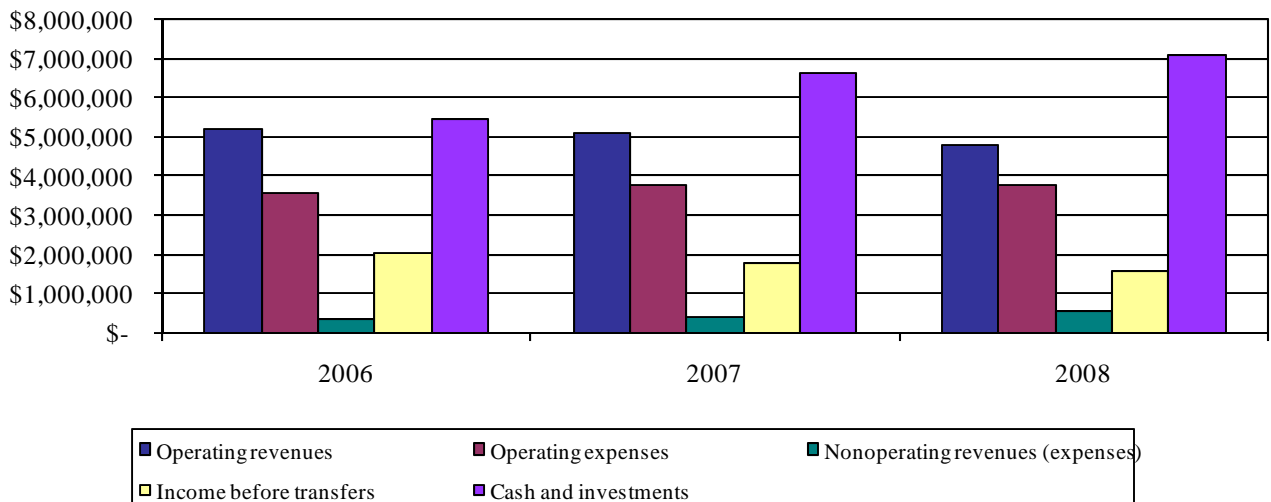
Water and Sewer Utilities

The Water and Sewer Utilities fund are accounted for in a separate enterprise fund and a summary follows:

The operations for the past three years are graphically presented below:

	2006		2007		2008	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Amount	Percent of Revenues
Operating revenues	\$ 5,203,016	100.0 %	\$ 5,087,201	100.0 %	\$ 4,779,603	100.0 %
Operating expenses	3,554,844	68.3	3,747,373	73.7	3,760,680	78.7
Operating income (loss)	1,648,172	31.7	1,339,828	26.3	1,018,923	21.3
Nonoperating revenues (expenses)	368,896	7.1	422,003	8.3	545,503	11.4
Income before contributions and transfers	2,017,068	38.8	1,761,831	34.6	1,564,426	32.7
Transfers in	252,760	4.9	-	-	-	-
Contributions from developers	958,911	18.4	109,248	2.1	-	-
Contributions from other funds	351,657	6.8	58,818	1.2	2,575,161	53.9
Transfers out	(500,406)	(9.6)	(709,025)	(13.9)	(1,003,826)	(21.0)
Change in net assets	\$ 3,079,990	59.3 %	\$ 1,220,872	24.0 %	\$ 3,135,761	65.6 %
Cash and investments	\$ 5,451,682		\$ 6,631,844		\$ 7,088,699	

Water and Sewer Utilities Summary



The current cash balance has improved each of the last two years and is very good relative to operations. The current margins are generating significant cash flow and the cash balance will provide for future expansion and maintenance of the system.

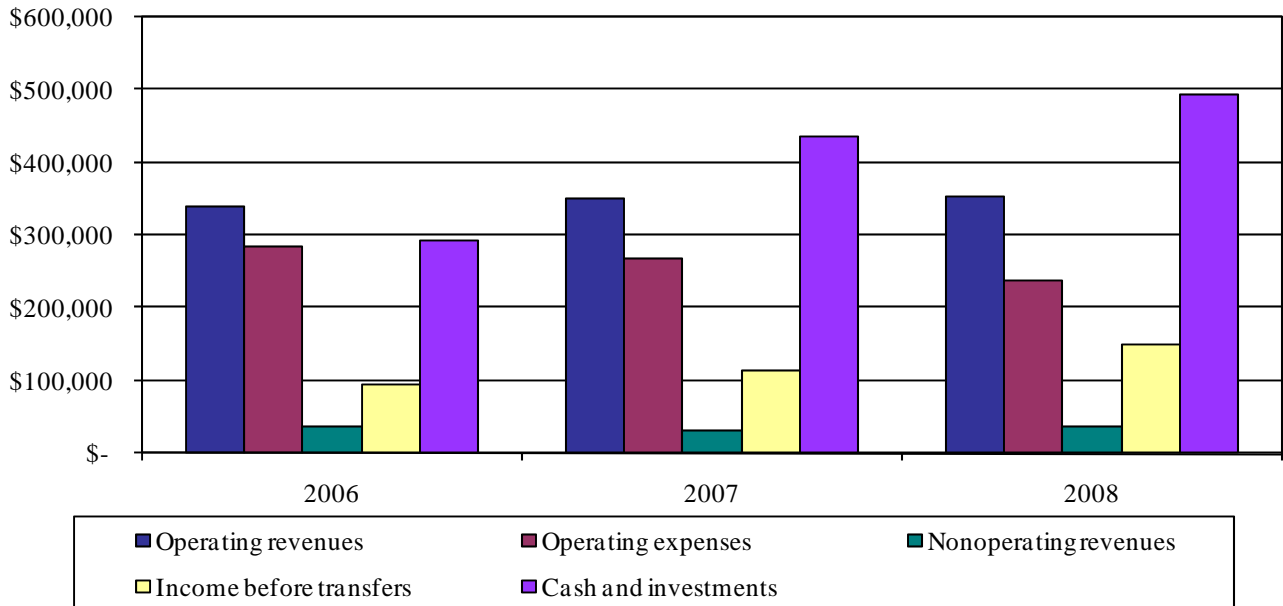


Storm Water Utility

The operations for the past three years are graphically presented below:

	2006		2007		2008	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Amount	Percent of Revenues
Operating revenues	\$ 339,323	100.0 %	\$ 350,524	100.0 %	\$ 352,130	100.0 %
Operating expenses	282,143	83.1	267,708	76.4	237,671	67.5
Operating income	57,180	16.9	82,816	23.6	114,459	32.5
Nonoperating revenues	36,150	10.7	28,991	8.3	35,196	10.0
Change in net assets	\$ 93,330	27.6 %	\$ 111,807	31.9 %	\$ 149,655	42.5 %
Cash and investments	\$ 291,681		\$ 435,640		\$ 492,056	

Storm Water Utility Summary



Although the cash balance appears adequate, the City should continue to evaluate operations annually to ensure rates are sufficient.

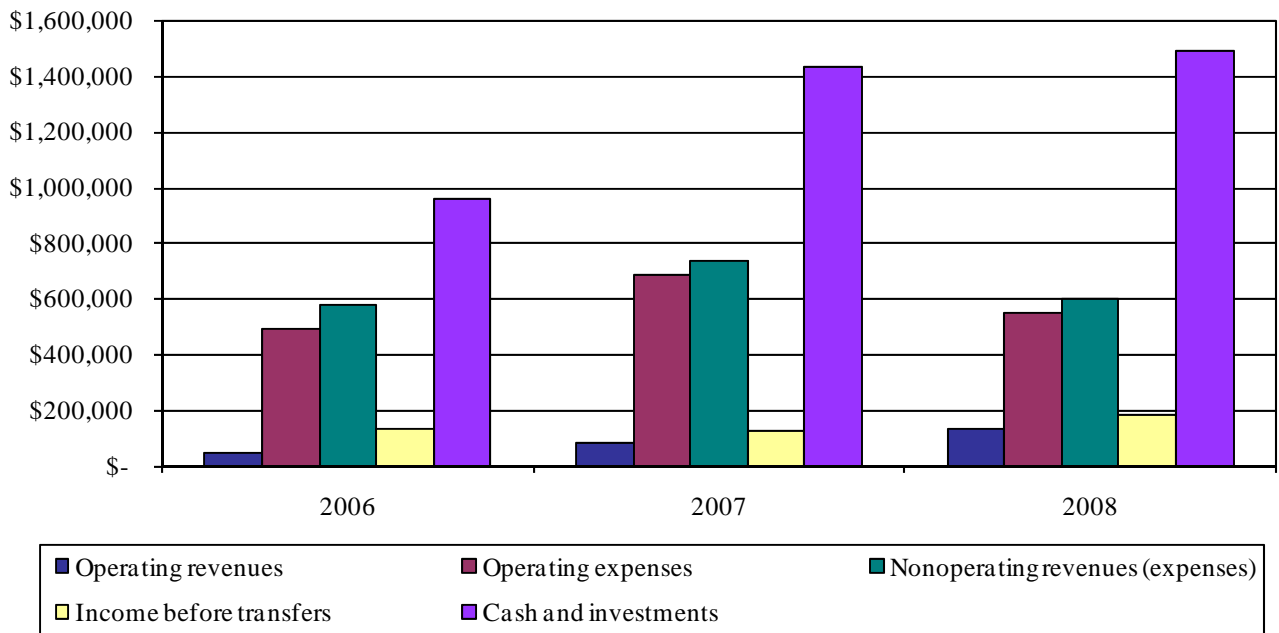


Transit Services

The operations for the past three years are graphically presented below:

	2006		2007		2008	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Amount	Percent of Revenues
Operating revenues	\$ 49,957	100.0 %	\$ 85,560	100.0 %	\$ 133,186	100.0 %
Operating expenses	493,102	987.1	692,071	808.9	553,681	415.7
Operating loss	(443,145)	(887.1)	(606,511)	(708.9)	(420,495)	(315.7)
Nonoperating revenues (expenses)	579,304	1,159.6	738,204	862.8	603,833	453.4
Change in net assets	\$ 136,159	272.5 %	\$ 131,693	153.9 %	\$ 183,338	137.7 %
Cash and investments	\$ 1,223,400		\$ 1,434,417		\$ 1,488,839	

Transit Operations Summary



Most of the funding for transit services comes from governmental units and their revenue is reported in the nonoperating revenue (expenses) category representing MVET (Motor Vehicle Excise Tax) state transit aid.



Ratio Analysis

The following captures a few ratios from the City’s financial statements that give some additional information for trend and peer group analysis. The peer group average is derived from information available on the website of the Office of the State Auditor. Our prior year letter had a sample of larger cities where this year has all class 2 cities in the state. Different peer group averages are used for Cities of the 2nd class (population 20,000 - 100,000).

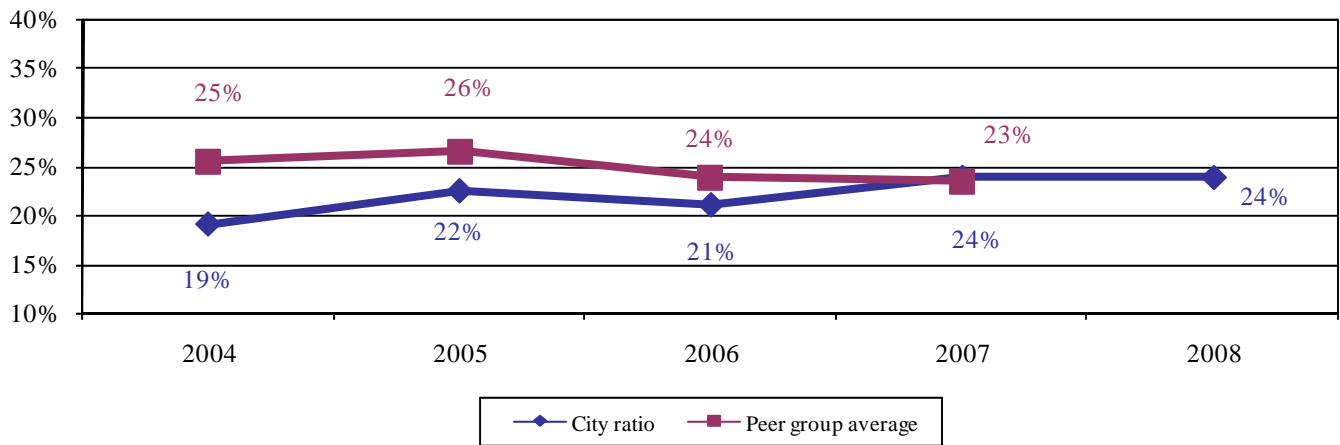
Ratio	Calculation	Source	2004	2005	2006	2007	2008
Debt to assets	Total liabilities/total assets	Government-wide	19%	22%	21%	24%	24%
			25%	26%	24%	23%	N/A
Debt per capita	Bonded debt/population	Government-wide	\$ 911	\$ 1,367	\$ 1,383	\$ 1,805	\$ 1,736
			\$ 1,202	\$ 1,233	\$ 1,389	\$ 1,485	N/A
Taxes per capita	Tax revenues/population	Government-wide	\$ 305	\$ 340	\$ 362	\$ 398	\$ 371
			\$ 291	\$ 339	\$ 381	\$ 408	N/A
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	72%	78%	77%	77%	77%
			69%	66%	70%	69%	N/A
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	68%	79%	78%	77%	77%
			62%	61%	65%	64%	N/A

Represents the City of Prior Lake

Peer Group ratio

Debt-to-Assets Leverage Ratio (Solvency Ratio)

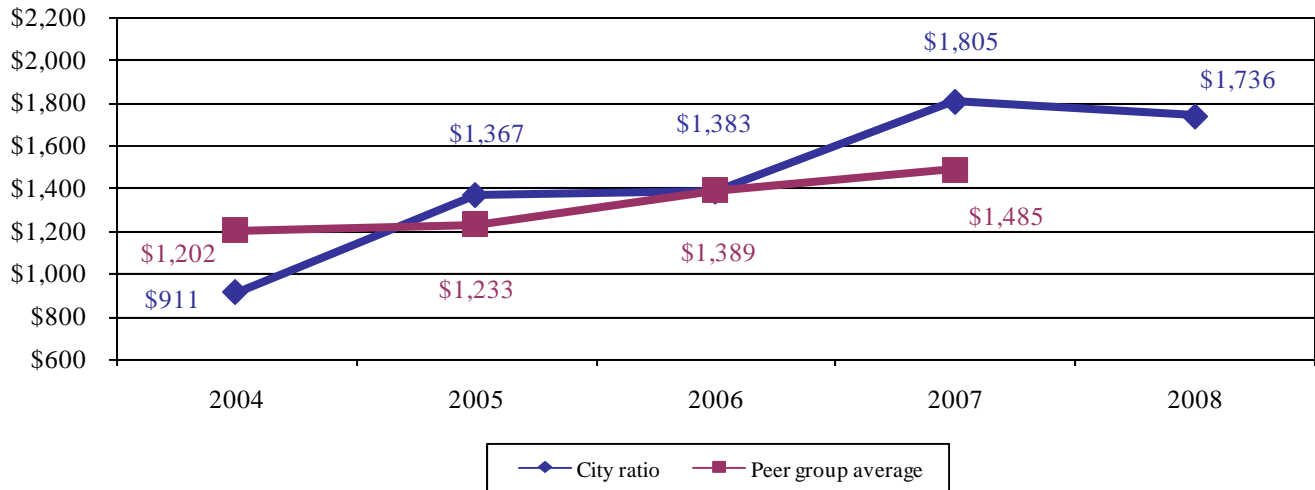
The debt-to-assets leverage ratio is a comparison of a city’s total liabilities to its total assets or the percentage of total assets that are provided by creditors. It indicates the degree to which the City’s assets are financed through borrowings and other long-term obligations (i.e. a ratio of 50 percent would indicate half of the assets are financed with outstanding debt).





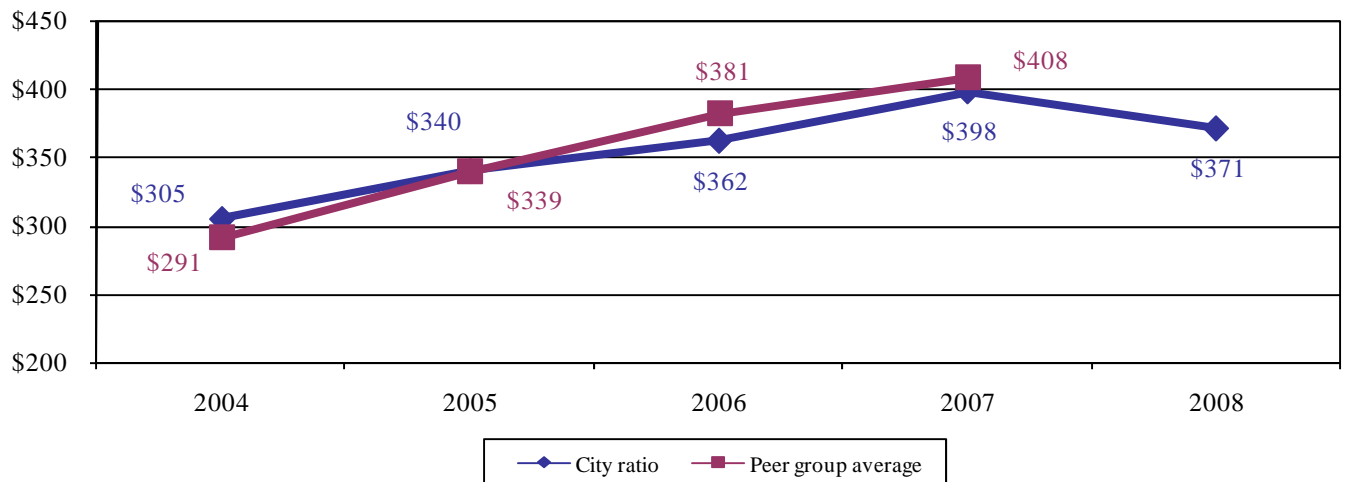
Bonded Debt per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total bonded debt by the population of the city and represents the amount of bonded debt obligation for each citizen of the city at the end of the year. The higher the amount, the more resources are needed in the future to retire these obligations through taxes, assessments or user fees.



Taxes per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total tax revenues by the population of the city and represents the amount of taxes for each citizen of the city for the year. The higher this amount is, the more reliant the city is on taxes to fund its operations.

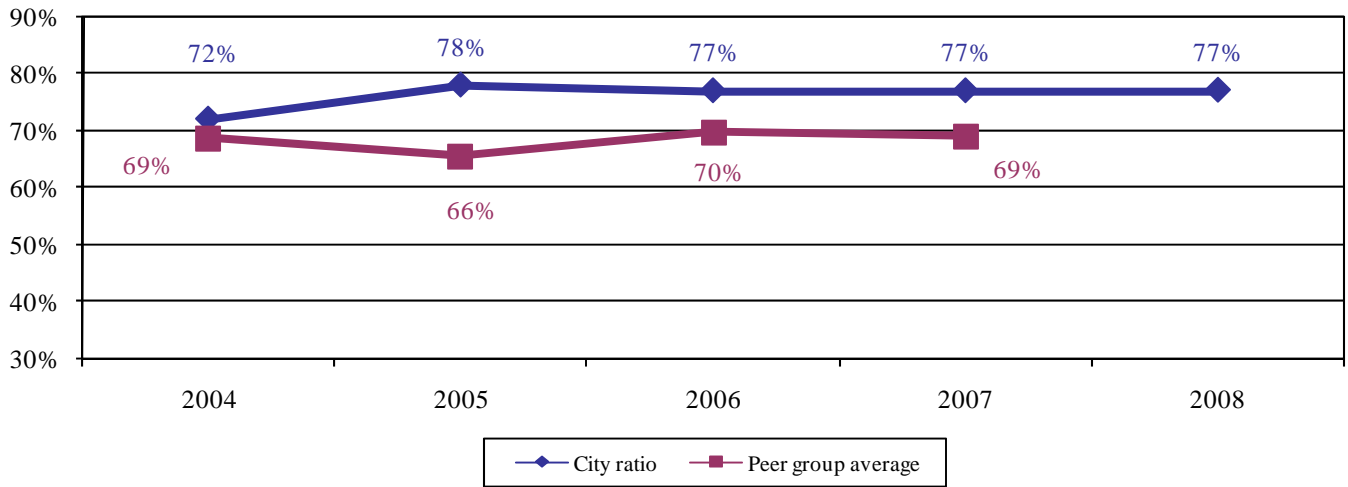




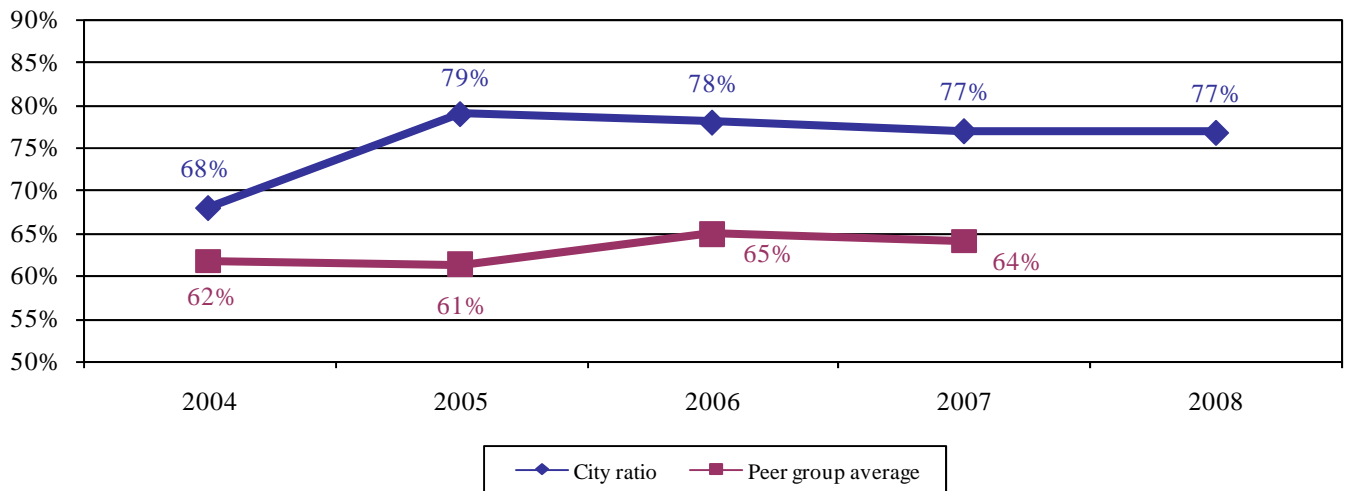
Capital Assets Percentage (Common-size Ratio)

This percentage represents the percent of governmental or business-type capital assets that are left to be depreciated. The lower this percentage, the older the city's capital assets are and may need major repairs or replacements in the near future. A higher percentage may indicate newer assets being constructed or purchased and may coincide with higher debt ratios or bonded debt per capita.

Governmental Activities



Business-type Activities





Future Statute and Accounting Standard Changes

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

2009 Levy Limits

During the 2008 legislative session, Minnesota legislators amended Statutes section 275.71 to enact levy limits for cities over 2,500 in population. This bill is in effect for taxes levied in 2008 through 2010. Annually the levy limit is multiplied by:

1. One plus the lesser of 3.9 percent or the percentage growth in the implicit price deflator.
2. One plus a percentage equal to 50 percent of the percentage increase in the number of households, if any, for the most recent 12-month period for which data is available, and
3. One plus a percentage equal to 50 percent of the percentage increase in the taxable market value of the jurisdiction due to new construction of class 3 property, as defined in section 273.13, subdivision 4, except for state-assessed utility and railroad property, for the most recent year for which data is available.

In addition there are special levies that are currently allowed outside any levy limit. They are listed below:

- Debt levies - includes bonds, most certificates of indebtedness and levies to pay the local share of bonds issued by another political subdivision
- Voter approved levy increases
- To pay federal or state matching fund requirements for programs instituted after 2001
- For costs to prepare for, or recover from, natural disasters – upon approval by the commissioner of revenue
- To pay amounts related to errors in levy certification in the previous year
- To pay for property tax abatements
- To pay increases in the employer share of PERA pension costs since 2001
- To pay operating and maintenance costs of county jails to the extent that the cost is required by the Department of Corrections Rules and Standards.
- To pay for a lake improvement district
- To repay a federal or state loan issued to help a local government pay the required local share of a federal or state transportation or other capital project
- To pay court administration costs during the period in which court costs were being transferred from the counties to the state
- To fund required police and firefighters relief funds, to the extent that the costs exceed costs in 2001
- To fund a storm sewer improvement district



- To fund an animal protection society
- For counties, to pay for the increase in their share of health and human service costs caused by reductions in federal health and human service grants effective after September 30, 2007
- To fund increased costs of securing, maintaining, and demolishing foreclosed and abandoned housing in cities that have a 2007 foreclosure rate over a certain percent
- To lost traffic citation revenue and unreimbursed costs of redeployed traffic control agents due to the collapse of the Interstate 35W bridge
- To fund certain cost increases in police and firefighter costs
- To recoup losses due to any unallotment of city and county general purpose aids and credits

We recommend that the City review all of the options presented when calculating future years levies. There is further guidance provided by League of Minnesota Cities on how to estimate the 2009 levy limit on their website: www.lmc.org.

GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*

This statement was issued in June 2007 and is effective for periods beginning after June 15, 2009.

The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks.

This statement requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets. The statement provides additional guidance that specifically addresses the unique nature of intangible assets, including:

- Requiring that an intangible asset be recognized in the statement of net assets only if it is considered identifiable
- Establishing a specified-conditions approach to recognizing intangible assets that are internally generated (for example, patents and copyrights)
- Providing guidance on recognizing internally generated computer software
- Establishing specific guidance for the amortization of intangible assets.



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 nonspendable, 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.

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This report is intended solely for the information and use of Council, management and the Minnesota Office of the State Auditor and is not intended and should not be used by anyone other than those 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 continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

April 11, 2009
Minneapolis, Minnesota

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Certified Public Accountants