Management Letter

City of Vadnais Heights

Vadnais Heights, Minnesota

For the Year Ended
December 31, 2013

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

People + Process. Going Beyond the Numbers

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

June 16, 2014

Management, Honorable Mayor and City Council
City of Vadnais Heights, 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 Vadnais Heights, Minnesota (the City), for the year ended December 31, 2013. 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 6, 2013. 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 City. 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 City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described below as item 2013-001 that we consider to be a significant deficiency.

5201 Eden Avenue, Suite 250
Edina, MN 55436
952.835.9090 | Fax 952.835.3261

2013-001 Preparation of financial statements

Condition: As in prior years, there was no City prepared financial statement and we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting. Essentially, the auditors can't be part of your internal control process and there isn't sufficient staff to provide a segregation of duties over the financial reporting process. 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.

Cause: From a practical standpoint we prepare the financial statements 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: 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 had there been adequate segregation of duties.

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, based on cost/benefit analysis, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements. As recommended, the City ensures that its financial figures match the final audited figures each year. The cost of eliminating this stated risk; i.e., hiring an assistant finance director, exceeds the perceived benefit.

Compliance

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 City's compliance with those requirements. We noted no instances of noncompliance with Minnesota statues.

Summary of prior year findings

2012-001 Timely payment of claims

Condition: During our audit, the results of tests performed indicated that the City had not made various payments within the timeframe set forth by State statutes.

Current year status:

The City followed the applicable State statues.

2012-002 Public purpose of expenditures

Condition: During our audit, we tested four transactions that were considered contributions to other organizations and noted that all of the payments were made to non-profit organizations.

Current year status:

The results of our tests included no contributions to non-profit organization in 2013.

2012-004 Transactions between Vadnais Sports Center and contracted management company

Condition: During our audit, it was determined that several transactions relating to the Vadnais Sports Center (VSC) had incorrectly been recorded as transactions of the contracted management company. This comment was also present in the 2011 management letter. The contracted management company did not credit the VSC for all ancillary revenue received at the VSC. We noted that commission revenue from vending was not credited to VSC and we were unable to verify documentation that other machine revenue was properly applied to VSC. The documented balance owing between the management company and the City was $25,010 and $7,044 as of December 31, 2012 and 2011, respectively. These amounts do not include the ancillary revenue noted above.

Current year status:

During 2012, the management company's contract was terminated for wholly failing to perform its duties as detailed in the Management Agreement. The City ended its involvement with the VSC effective December 31, 2012.

Summary of prior year findings - continued

2012-005 Monitoring licenses for use of Vadnais Sports Center

Condition: The master lease agreement for the Vadnais Sports Center (VSC) states that the City must monitor the licensing agreements entered into to ensure that 50 percent of licenses are with non-profit groups. This is necessary to maintain the tax-exempt status of the bonds. We tested four agreements for compliance. We noted that the City had not reviewed any of the agreements. A similar comment was also reported in the 2011 report.

Current year status:

During 2012, the management company's contract was terminated for wholly failing to perform its duties as detailed in the Management Agreement. The City ended its involvement with the VSC effective December 31, 2012.

2012-006 Internal control over daily use of Vadnais Sports Center

Condition: During our audit of the Vadnais Sports Center (VSC), it was noted that there is very little internal control over daily use fees. We witnessed that when customers come into VSC during open dome/ ice time, they come to the office window to pay the fee and then they go to the dome or ice rink. Customers do not get a receipt and are not tracked in any way. The office manager does not track who has paid either. A similar comment was also reported in the 2011 report.

Current year status:

During 2012, the management company's contract was terminated for wholly failing to perform its duties as detailed in the Management Agreement. The City ended its involvement with the VSC effective December 31, 2012.

2012-007 Internal control over Vadnais Sports Center receipts and disbursements

Condition: During our audit, we noted that several transactions lacked proper support and that the receipts and disbursements transaction cycles had no segregation of duties for the majority of the year. When testing specific transactions, we noted that receipts were not tracked properly and deposit slips did not identify what receipts were being deposited. In addition, the office manager has control of the receipts and disbursements cycle from start to finish. Also, we noted during audit fieldwork that the Office Manager was guessing what revenue was received for (ice, dome, advertising, etc). This also would make it difficult to track which customers have paid and who hasn't. A similar comment was also reported in the 2011 report.

Current year status:

During 2012, the management company's contract was terminated for wholly failing to perform its duties as detailed in the Management Agreement. The City ended its involvement with the VSC effective December 31, 2012.

2012-008 Documentation of advertising and licensing agreements

Condition: During our audit, we attempted to test the advertising and licensing agreements to ensure compliance with the master lease requirements. However, several advertising and licensing agreements were not on file. Many that were on file did not have signatures, what time period the agreement was for, or when payment was received for the agreement.

Current year status:

During 2012, the management company's contract was terminated for wholly failing to perform its duties as detailed in the Management Agreement. The City ended its involvement with the VSC effective December 31, 2012.

Summary of prior year findings - continued

2012-009 Federal form 1099 requirements

Condition: During our audit, we noted that the Vadnais Sports Center (VSC) has not been filing the Federal form 1099 as required for certain vendors.

Current year status:

During 2012, the management company's contract was terminated for wholly failing to perform its duties as detailed in the Management Agreement. The City ended its involvement with the VSC effective December 31, 2012.

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 statement No. 61was adopted for the year ended December 31, 2013. We noted no transactions entered into by the City 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 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. The most sensitive estimates affecting the financial statements were capital asset basis, depreciation, allocation of salaries, compensated absences, and other postemployment benefits.

- 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 City Council within the City's budget and are derived from each employee's estimated time to be spent servicing the respective function of the City. These allocations are also used in allocating accrued compensated absences payable.
- Management's estimate of its OPEB liability is based on several factors including, but not limited to, anticipated retirement age for active employees, life expectance, turnover, and healthcare cost trend rates

We evaluated the key factors and assumptions used to develop these accounting 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 when 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.

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 June 16, 2014.

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

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.

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, 2013.

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 $2,321,137 from 2012. Overall, the fund balance of $2,949,904 is 57.0 percent of the 2014 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 40 to 50 percent of planned expenditures and transfers out is adequate to meet working capital and small emergency needs.

Purposes and Benefits of an Adequate Fund Balance

- Expenditures are incurred somewhat evenly throughout the year. However, currently, property tax and state aid revenues are not received until the second half of the year. We also have seen the State mandate levy limits for cities over 2,500 in population. An adequate fund balance will provide the cash flow required to finance the General fund expenditures until these revenue sources are received.

- The City is vulnerable to legislative actions at the State and Federal level. The State continually adjusts the local government aid. An adequate fund balance will provide a temporary buffer against aid adjustments and levy limits.

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

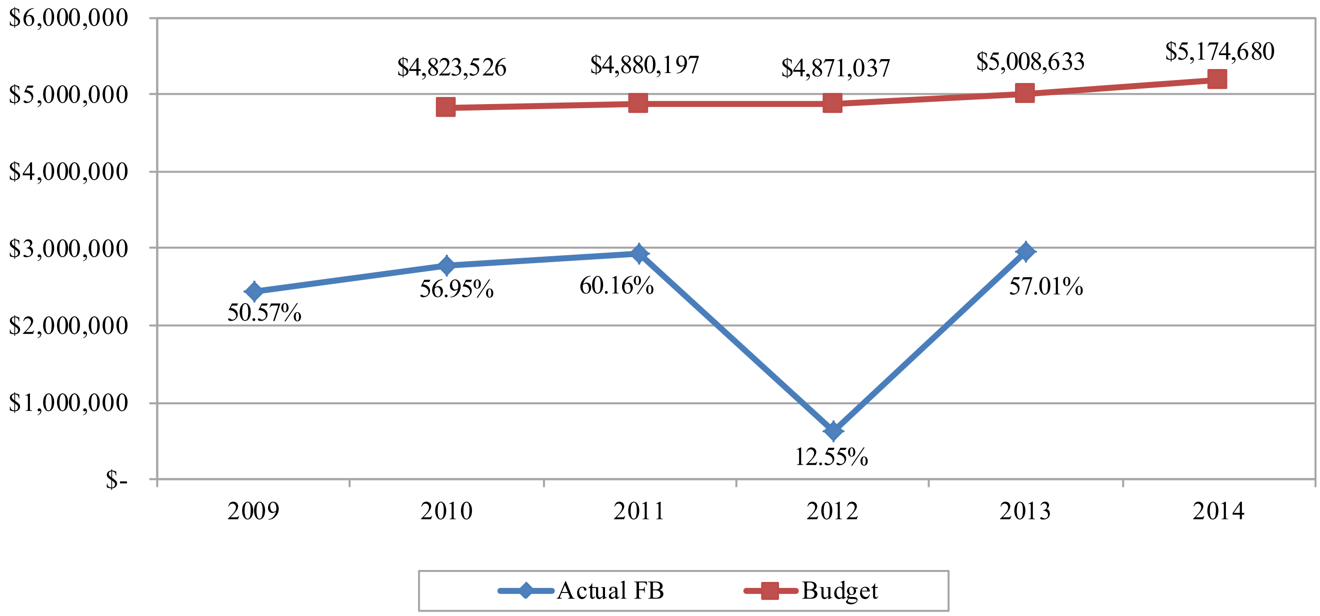
- A strong fund balance will assist the City in obtaining, maintaining or improving its bond rating. The result will be better interest rates in future bond sales.

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

Year	Fund Balance December 31		Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2009	$ 2,439,184		2010	$ 4,823,526	50.57 %
2010	2,779,513		2011	4,880,197	56.95
2011	2,930,586		2012	4,871,037	60.16
2012	628,767	*	2013	5,008,633	12.55
2013	2,949,904		2014	5,174,680	57.01

*The City ended its involvement with the Sportsplex effective December 31, 2012. In 2013, there was some activity related to the Sportsplex that was still an obligation to the City. The remaining activity will be included with the General fund going forward and the General fund's 2012 activity was restated to reflect this.

Fund Balance as a Percent of Next Year's Budget



People + Process. Going Beyond the Numbers

The 2013 operations are summarized as follows:

	Final Budget Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 4,528,633	$ 4,427,287	$ (101,346)
Expenditures	5,008,633	5,025,436	(16,803)
Deficiency of revenues under expenditures	(480,000)	(598,149)	(118,149)
Other financing sources (uses)			
Transfers in	475,000	2,974,286	2,499,286
Sale of capital assets	5,000	-	(5,000)
Transfers out	-	(55,000)	(55,000)
Total other financing sources (uses)	480,000	2,919,286	2,439,286
Net change in fund balances	-	2,321,137	2,321,137
Fund balances, January 1	628,767	628,767	-
Fund balances, December 31	$ 628,767	$ 2,949,904	$ 2,321,137

- A number of revenue categories varied significantly from budget. Although 99% of current taxes were collected, tax abatements for valuation adjustments for previous years reduced tax revenues significantly. A spike in interest rates at year-end negatively impacted the market value of city investments as of that date. As these investments are typically held to maturity, the declines in market value will be reversed as the investments reach maturity. Most notably, taxes and interest on investments were $175,149 and $149,756 under budget. However, licenses and permits and charges for services were over budget by $128,337 and $72,170, respectively.

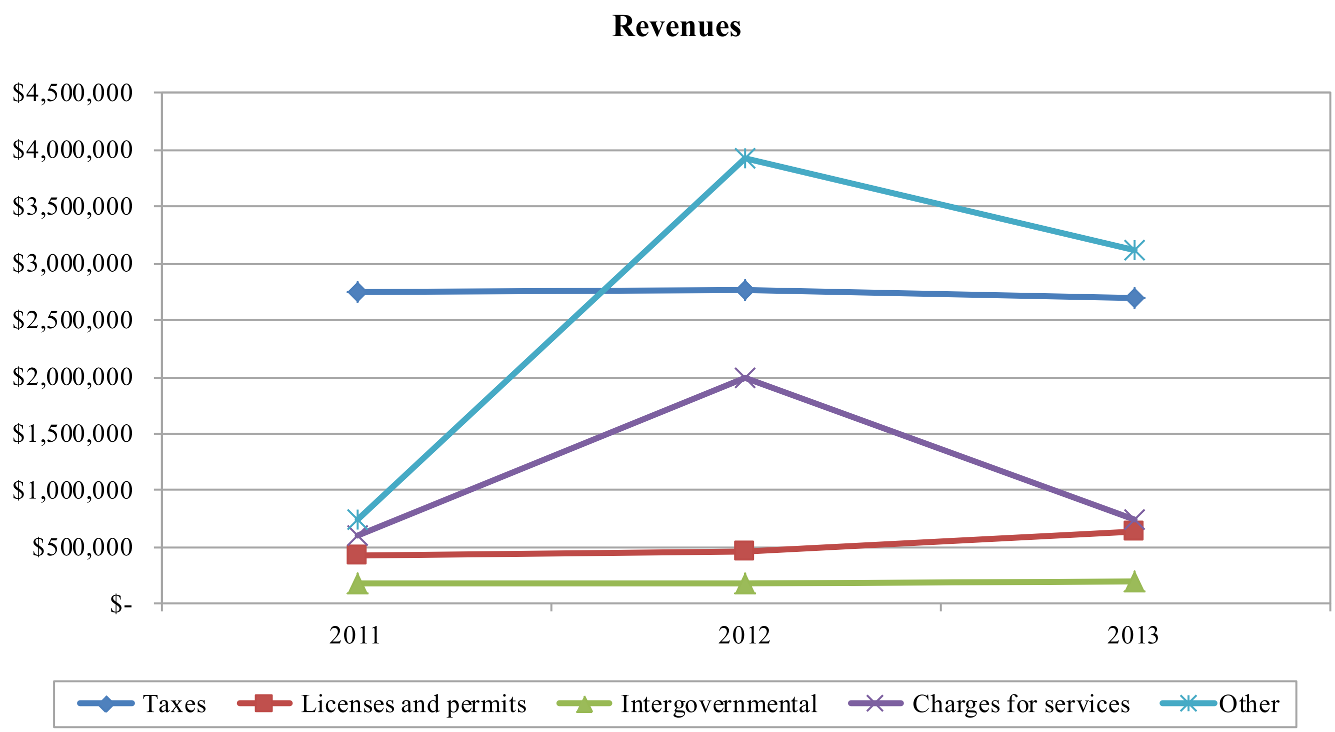
- Overall expenditures were over budget by $16,803. All departments were under budget, except for public works current expenditures, culture and recreation current expenditures, and public safety capital outlay, which were $89,663, $76,408, and $11,837 over budget, respectively. The overage for culture and recreation was primarily due to the success of the Commons, a component of the North Service Center, which is rented out for private gatherings. General government current expenditures were $130,861 under budget.

- The positive variance in transfers in resulted from the forgiveness of the internal loan related to the Sportsplex.

A comparison between 2011, 2012 and 2013 revenues and transfers in is presented below:

Source	2011	2012	2013	Percent of Total	Per Capita
Taxes	$ 2,738,722	$ 2,770,863	$ 2,700,670	36.6 %	$ 214
Special assessments	7,287	5,773	9,501	0.1	1
Licenses and permits	435,848	464,040	639,837	8.6	51
Intergovernmental	186,750	188,931	193,758	2.6	15
Charges for services	610,449	1,987,651	747,770	10.1	59
Fines and forfeitures	29,256	40,769	37,400	0.5	3
Interest on investments	41,800	32,615	(119,756)	(1.6)	(9)
Miscellaneous	199,253	215,698	218,107	2.9	17
Transfers in	460,000	435,000	2,974,286	40.2	235
Gain on discontinued operations	-	3,197,538	-	-	-
Total revenues and transfers in	$ 4,709,365	$ 9,338,878	$ 7,401,573	$ 100 %	$ 586

A graphical presentation of the past three years of revenues and transfers in totals follows:



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

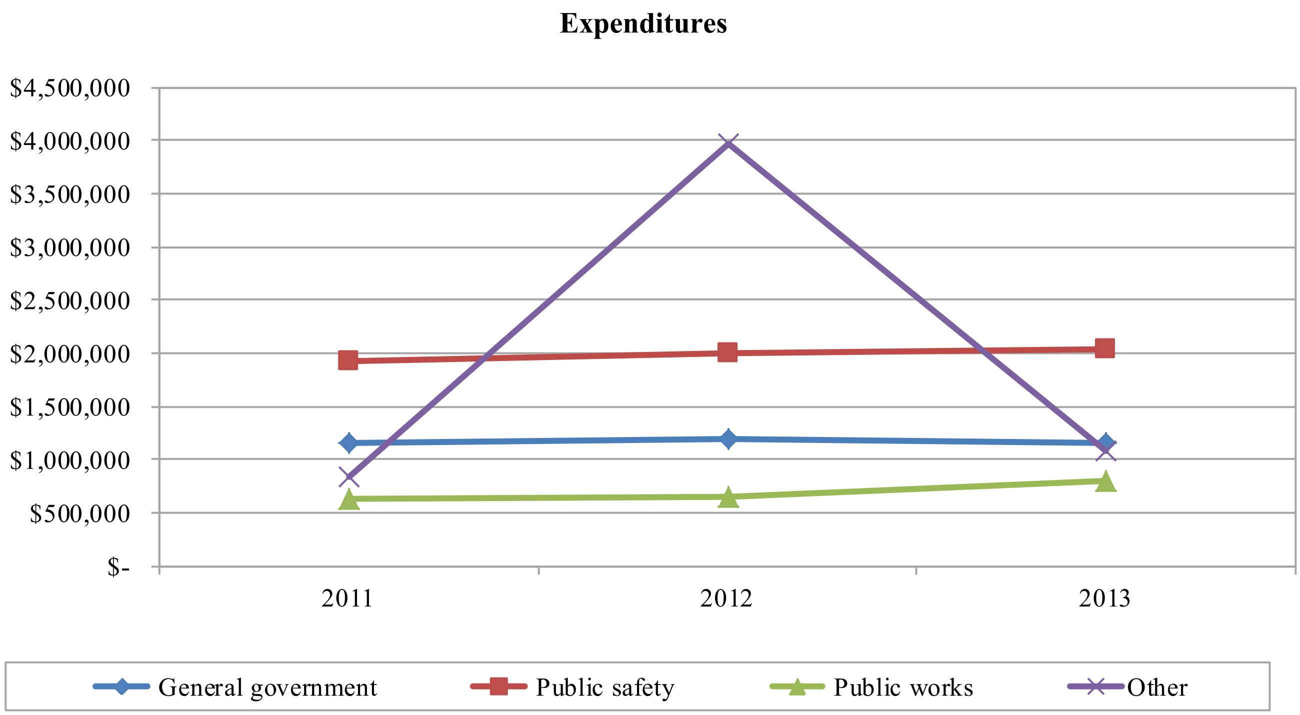
- As noted previously, the Sportsplex fund was combined with the General fund. This is the reason for the significant increase in transfers in and the gain on discontinued operation in 2012. This is also the reason for the increase in charges for services in 2012.

A comparison between 2011, 2012 and 2013 expenditures is presented below:

Program	2011	2012	2013	Percent of Total	Per Capita	Peer Group Per Capita
General government	$ 1,161,456	$ 1,198,477	$ 1,158,408	22.8 %	$ 92	$ 100
Public safety	1,931,117	1,991,537	2,031,476	40.0	161	219
Public works	629,652	645,014	803,485	15.8	64	100
Culture and recreation	667,071	3,789,940	830,680	16.4	66	56
Community development	168,996	175,751	189,550	3.7	15	6
Capital outlay	-	-	11,837	0.2	1	17
Transfers out	-	-	55,000	1.1	4	n/a
Total expenditures	$ 4,558,292	$ 7,800,719	$ 5,080,436	100.0 %	$ 403	$ 498

The above chart compares the amount the City spends per capita in comparison to a peer group. We have compiled a peer group average derived from 2012 information we have requested from the Office of the State Auditor and the compiled data for Cities of the 3rd class which have populations of 10,000-20,000.

A graphical presentation of the past three year's expenditures totals by program follows:



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

- As noted previously, the Sportsplex fund was combined with the General fund. This is the reason for the significant increase in culture and recreation expenditures in 2012.

Special Revenue Funds

Special revenue funds are used to account for revenue derived from specific taxes or other earmarked revenue sources. They are usually required by Minnesota statute or local ordinance to finance particular functions or activities of government. Included in this group of funds and the find balance of each at December 31, 2013 and 2012 is as follows:

Fund	Fund Balance December 31, 2013	Fund Balance December 31, 2012	Increase (Decrease)
Nonmajor			
Community Service	$ 1,471	$ 4,222	$ (2,751)
Heritage Days	37,514	32,714	4,800
Solid Waste	2,254	5,082	(2,828)
Charitable Gambling	60,577	53,578	6,999
Total	$ 101,816	$ 95,596	$ 6,220

Debt Service Funds

Debt Service funds are a type of governmental fund used 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

Fund	Total Cash	Total Assets	Bonds Outstanding	Maturity Year
2004 G.O. Improvement Bonds	$ 39,030	$ 82,556	$ 713,000	2018
2009A G.O. Build America Bonds	188,509	193,148	6,870,000	2034
2009B G.O. Refunding Bonds	175,991	178,647	175,000	2014
2004 G.O. Tax Increment Bonds	89,940	89,940	407,000	2018
Total	$ 493,470	$ 544,291	$ 8,165,000	

Capital Projects Funds

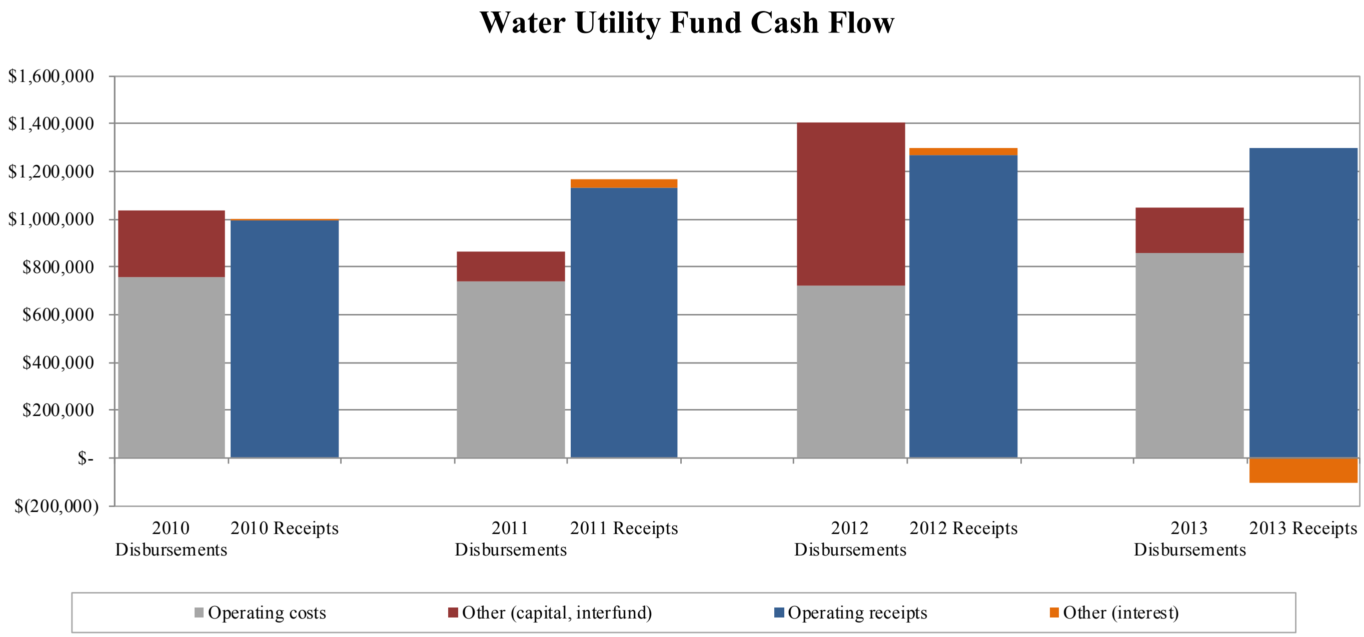
These funds accumulate resources to finance major capital acquisition and construction projects. A summary of year end fund balances for all capital projects funds follows:

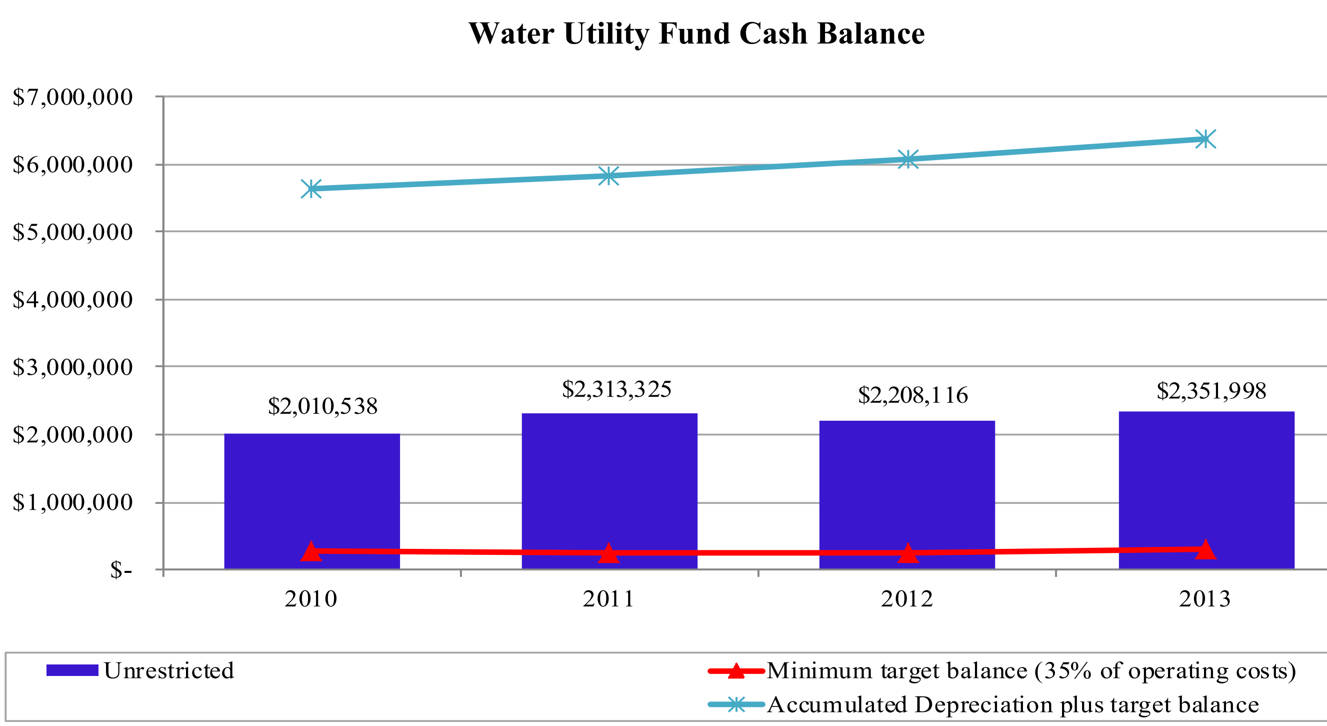
Fund	Fund Balances December 31, 2013	Fund Balances December 31, 2012	Increase (Decrease)
Major			
Public Works Reserve	$ 536,831	$ 35,652	$ 501,179
Tax Increment District 1-16	2,638,077	2,623,230	14,847
Nonmajor			
Capital Improvements	1,597,394	1,701,177	(103,783)
Park Dedication	83,959	54,949	29,010
Fire Vehicle and Equipment	106,117	66,838	39,279
Bonded Debt Reserve	-	2,221,375	(2,221,375)
Development Reserve	-	478,237	(478,237)
Tax Increment District 1-6	647,189	741,310	(94,121)
Tax Increment District 1-8	920,021	883,607	36,414
Tax Increment District 1-12	1,576,508	1,141,640	434,868
Tax Increment District 1-17	36,481	-	36,481
Tax Increment District 1-21	-	-	-
Tax Increment District 1-23	523,676	483,676	40,000
Tax Increment District 1-30	200	(102)	302
Total	$ 8,666,453	$ 10,431,589	$ (1,765,136)

The Bonded Debt Reserve Fund and Development Reserve fund were closed in 2013 to fund the deficit related to the Sportsplex. Tax Increment District 1-21 was closed early as the objectives of the district had been fulfilled.

Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises-where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. These operations require significant capital investments. The city's practice is to charge current users for the portion of capital depreciation costs incurred each year in addition to the amount necessary to cover current operations. The resulting goal is to maintain reserves equal to the amount of accumulated depreciation for each enterprise. Although this goal is not currently satisfied for all enterprise funds, actions are being taken to eventually achieve this goal. The results of the operations in terms of cash flow and the breakdown of the cash balances for the past four years are as follows:

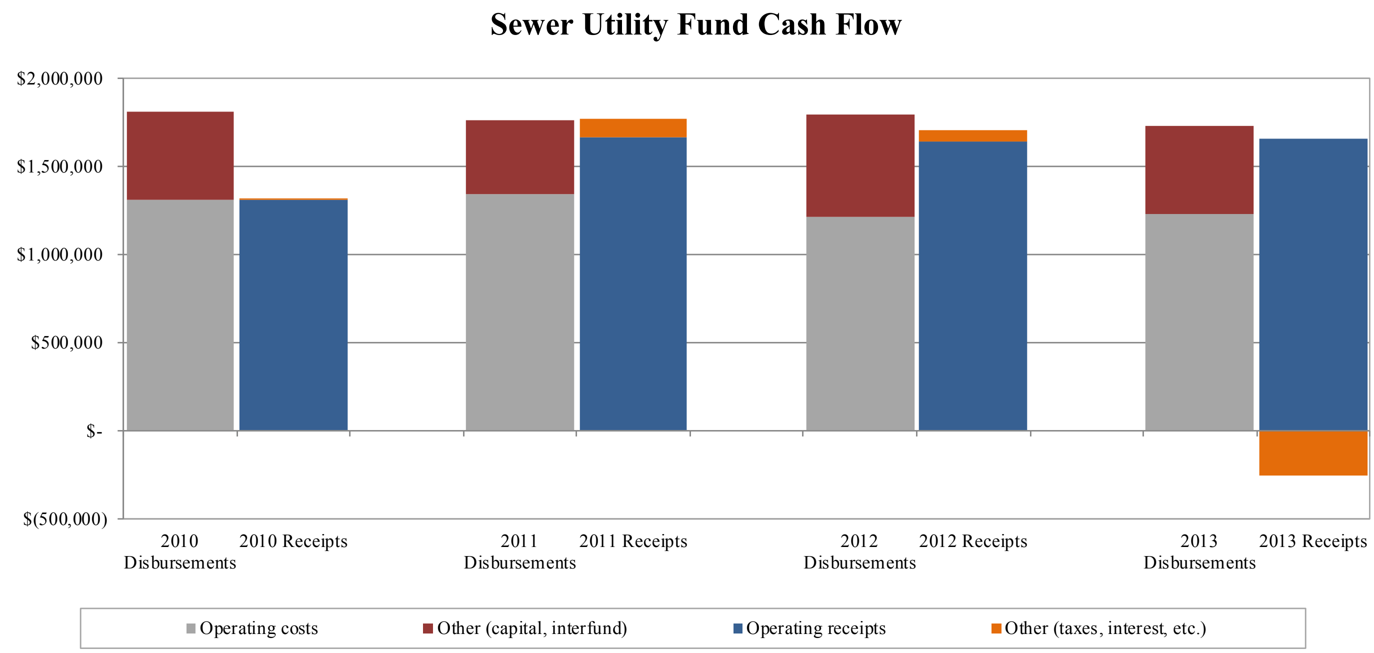


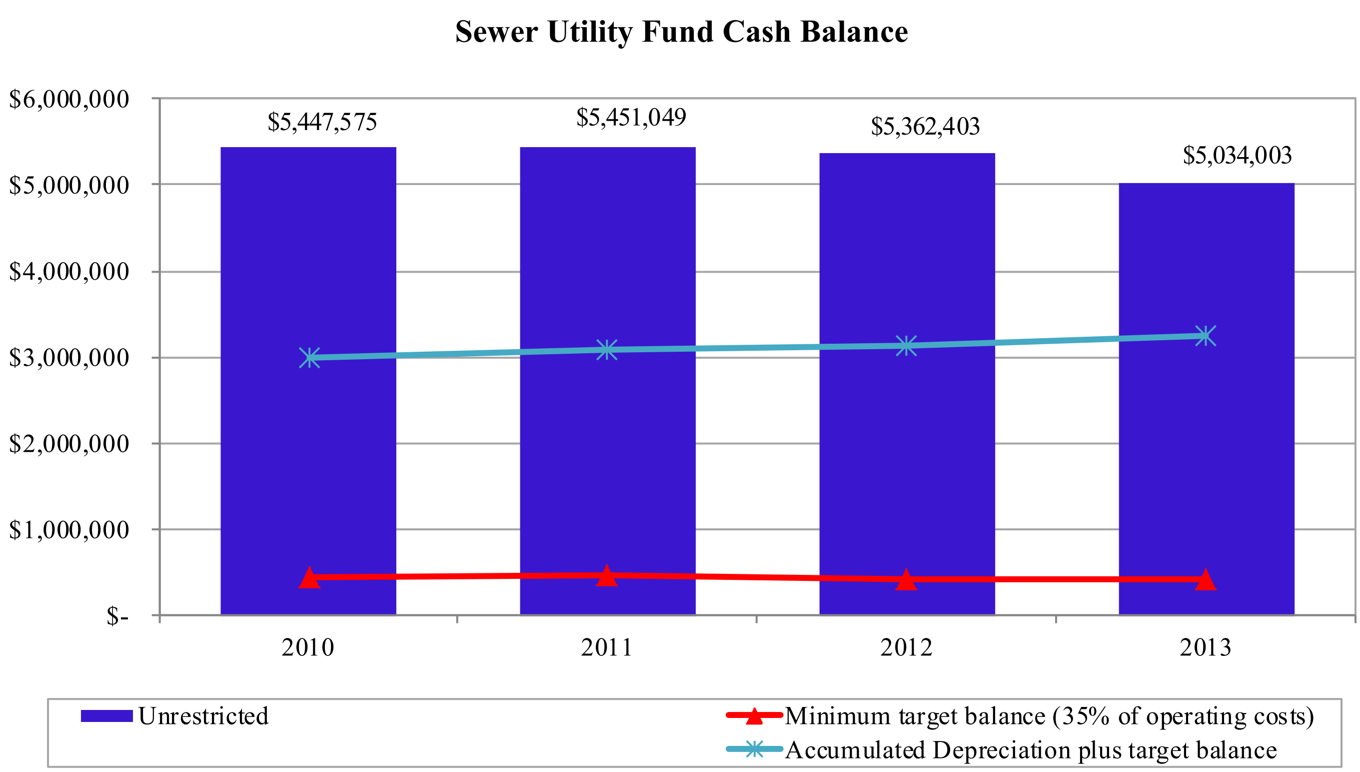


Some of the line items with significant changes are highlighted below:

- The operating receipts (blue) have been sufficient to cover operating costs (grey) the past four years.
- The cash balance has increased roughly $340,000 since 2010, as the City works towards its goal of fully funding accumulated depreciation.

People + Process. Going Beyond the Numbers

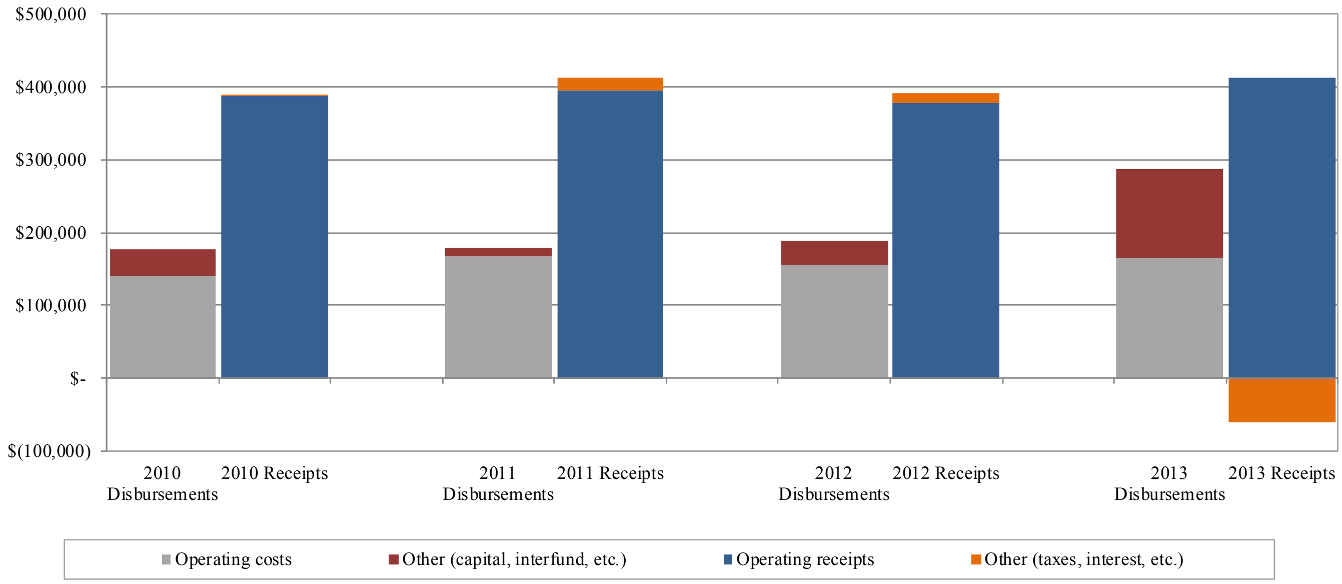




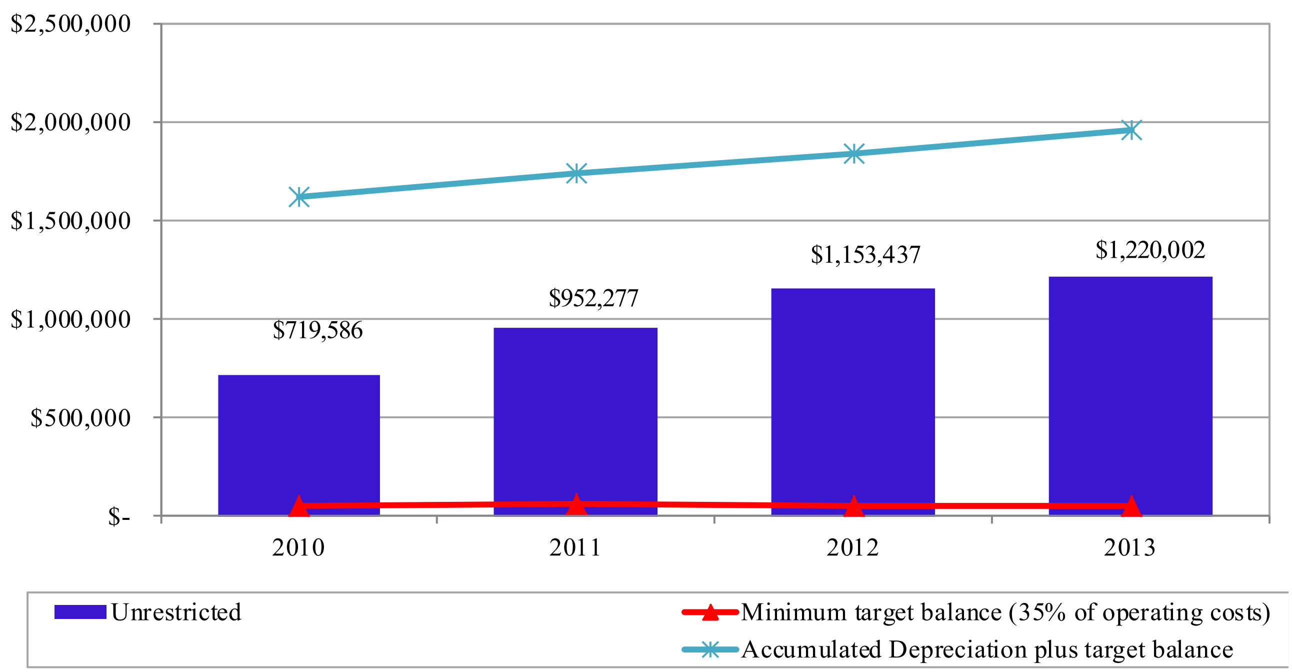
Some of the line items with significant changes are highlighted below:

- The operating receipts (blue) have been sufficient to cover operating costs (grey) the past four years, with the exception of 2010.
- Cash balance has decreased roughly $410,000 since 2010, as the City annually transfers monies to the General fund to reduce the tax levy.

Surface Water Management Fund Cash Flow



Surface Water Management Fund Cash Balance



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

- The operating receipts (blue) have been sufficient to cover operating costs (grey) the past four years.
- The red bar represents capital purchases/improvements for the fund as well as transfers out to other funds.
- Cash balance has increased roughly $500,000 since 2010, as the City works towards its goal of fully funding accumulated depreciation.

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 we have requested from the Office of the State Auditor. Peer group averages were calculated using Minnesota cities of the 3rd class (population 10,000 - 20,000). The majority of these ratios facilitate the use of economic resources focus and accrual basis of accounting at the government-wide level. A combination of liquidity (ability to pay its most immediate obligations), solvency (ability to pay its long-term obligations), funding (comparison of financial amounts and economic indicators to measure changes in financial capacity over time) and common-size (comparison of financial data with other cities regardless of size) ratios are shown below.

Ratio	Calculation	Source	2010	2011	2012	2013
Debt to assets	Total liabilities/total assets	Government-wide	31%	36%	14%	14%
			36%	*32%*	*33%*	*N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 2,399	$ 2,881	$ 696	$ 646
			$ 2,503	*$ 2,253*	*$ 2,641*	*N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 415	$ 396	$ 404	$ 349
			$ 468	*$ 442*	*$ 465*	*N/A*
Current expenditures per capita	Governmental fund current expenditures/population	Governmental funds	$ 370	$ 377	$ 391	$ 402
			$ 632	*$ 636*	*$ 601*	*N/A*
Capital expenditures per capita	Governmental fund capital expenditures/population	Governmental funds	$ 706	$ 192	$ 157	$ 102
			$ 284	*$ 257*	*$ 295*	*N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	80%	78%	76%	74%
			57%	*63%*	*60%*	*N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	77%	75%	51%	50%
			68%	*68%*	*62%*	*N/A*

Represents the City of Vadnais Heights
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.

Current Expenditures per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total current governmental expenditures by the population of the City and represents the amount of governmental expenditure for each citizen of the City during the year. Since this is generally based on ongoing expenditures, we would expect consistent annual per capita results.

Capital Expenditures per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total governmental capital outlay expenditures by the population of the City and represents the amount of capital expenditure for each citizen of the City during the year. Since projects are not always recurring, the per capita amount will fluctuate from year to year.

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.

Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Standards have been issued and may have an impact on future City financial statements. (1)

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.

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.

Future Accounting Standard Changes - Continued

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 Affect 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. 69 - Government Combinations and Disposals of Government Operations

Summary

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.
This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, Business Combinations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations

Future Accounting Standard Changes - Continued

GASB Statement No. 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Summary

Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee may be applied prospectively.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

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.

Future Accounting Standard Changes - Continued

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.

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.

* * * * *

This communication is intended solely for the information and use of City 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.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
June 16, 2014