



CITY OF ST. LOUIS PARK
ST. LOUIS PARK, MINNESOTA

MANAGEMENT LETTER

YEAR ENDED
DECEMBER 31, 2009



5201 Eden Avenue
Suite 370
Edina, MN 55436

Management, Honorable Mayor, and Council
City of St. Louis Park, 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 St. Louis Park, Minnesota (the City) for the year ended December 31, 2009 and have issued our report thereon dated June 10, 2010. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and *OMB Circular A-133*, 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 January 1, 2010. 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 and *Government Auditing Standards* and *OMB Circular A-133*.

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 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, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Summary of Prior Year Findings

2008-1 Reconciliation of Deposits

<i>Condition:</i>	During our audit, we reviewed procedures over the billing and collection of receipts at the Recreation Center. We noted no clear reconciliation of the receipts posted to the point of sale system to the actual deposit prior to taking to the bank.
<i>Criteria:</i>	Procedures should include formal reconciliation prior to making the bank deposit to ensure all amounts are posted correctly.
<i>Current Year Status:</i>	The City has taken the proper actions to correct this finding.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, noncompliance with which could have a 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. Also, in accordance with *OMB Circular A-133*, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "*U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*" applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *OMB Circular A-133*, *Government Auditing Standards*, or 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. We noted no transaction 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 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.

Management's estimate of capital asset basis is based on estimated useful lives of the assets. The estimate of historical cost is based on engineers' estimates and deflated current value. Additional sensitive estimates include other postemployment benefits and allocation of expenses. We evaluated key factors and assumptions used to develop these accounting estimates 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 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. We proposed one entry that we consider an audit entry or correction of management decisions. The entry was made to correct bond payments recorded to incorrect funds.

We also assisted in preparing a number of year end accounting entries. These were necessary to adjust the City's records at year end to correct ending balances. The City should establish more detailed processes and procedures to reduce the total number of entries made during the audit. The City will receive better and timelier information if the preparation of year end entries is completed internally.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 10, 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 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 governmental unit'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, 2009.

General Fund

The General fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

The General fund balance increased \$118,382 from 2008. The unreserved fund balance is \$11,272,776, which is 49.1 percent of the 2010 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.

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.

Purposes and Benefits of an Adequate Fund Balance

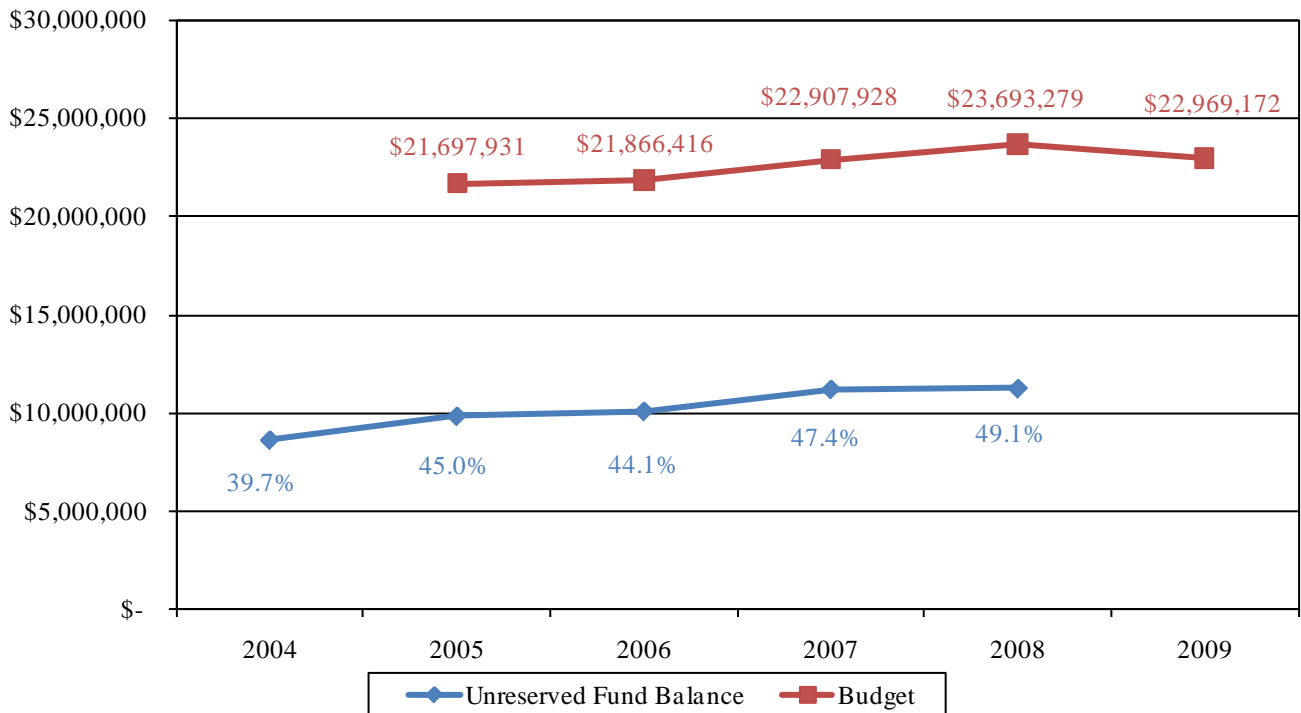
- Expenditures are incurred somewhat evenly throughout the year. However, currently, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the General fund expenditures until these revenue sources are received.
- The City is vulnerable to legislative actions at the State and Federal level. The State imposed reductions of market value credit aid and local government aid for some cities for 2009 and 2010. The Governor has recently presented increased reductions of 2010 funding as well as reductions of 2011 funding. 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 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	Reserved Fund Balance December 31	Budget Year	General Fund Budget	Percent of Unreserved Fund Balance To Budget
2005	\$ 8,622,091	\$ 118,002	2006	\$ 21,697,931	39.7 %
2006	9,847,341	104,774	2007	21,866,416	45.0
2007	10,100,187	13,719	2008	22,907,928	44.1
2008	11,232,307	494,293	2009	23,693,279	47.4
2009	11,272,776	572,206	2010	22,969,172	49.1

General Fund Unreserved Fund Balance as Compared to Budget



We have compiled peer group average fund balance information from the Minnesota Office of the State Auditor for 2nd class cities. In 2008, the average General fund balance as a percentage of expenditures for the peer group was 43.5 percent. Based on comparison to the peer group, the City's percentage is higher than the peer group.



A summary of General fund revenue and expenditures compared to budget and the prior year follows:

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues	\$ 21,098,389	\$ 20,781,389	\$ 21,310,955	\$ 529,566
Expenditures	<u>23,893,279</u>	<u>23,693,279</u>	<u>22,477,873</u>	<u>1,215,406</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,794,890)</u>	<u>(2,911,890)</u>	<u>(1,166,918)</u>	<u>1,744,972</u>
Other financing sources (uses)				
Transfers in	2,628,910	2,678,910	2,685,300	6,390
Transfers out	<u>-</u>	<u>-</u>	<u>(1,400,000)</u>	<u>(1,400,000)</u>
Total other financing sources (uses)	<u>2,628,910</u>	<u>2,678,910</u>	<u>1,285,300</u>	<u>(1,393,610)</u>
Net change in fund balances	(165,980)	(232,980)	118,382	351,362
Fund balances, January 1	<u>11,726,600</u>	<u>11,726,600</u>	<u>11,726,600</u>	<u>-</u>
Fund balances, December 31	<u>\$ 11,560,620</u>	<u>\$ 11,493,620</u>	<u>\$ 11,844,982</u>	<u>\$ 351,362</u>

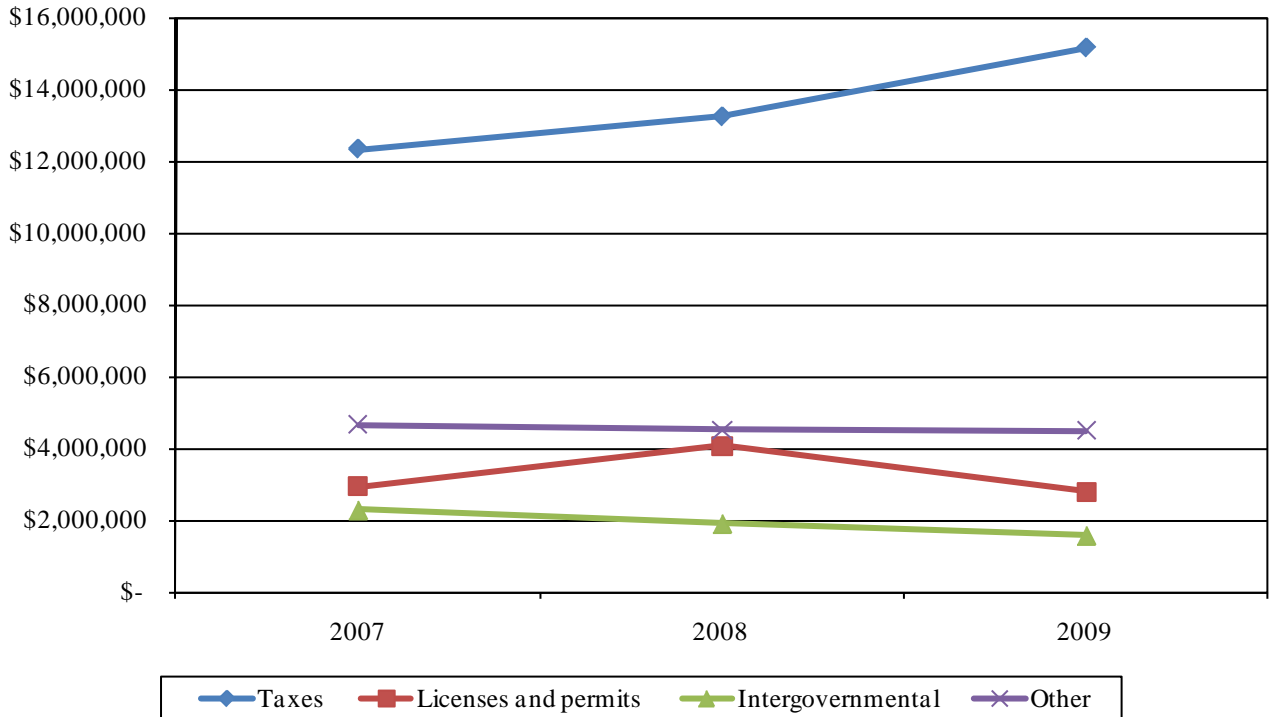
- In total, revenue sources provided a favorable variance when compared to budget. The sources of revenue that were greater than budgeted expectations were property taxes, licenses and permits, and miscellaneous revenue, which had positive variances of \$509,517, \$264,167, and \$68,876, respectively.
- All functions of expenditures had favorable actual results when compared with budget. Public Safety was \$521,484 under budget.



A comparison of revenues and transfers in for the last three years follows:

Source	2007	2008	2009	Percent of Total	Per Capita
Taxes	\$ 12,332,531	\$ 13,235,208	\$ 15,162,792	63.2 %	\$ 321
Licenses and permits	2,940,449	4,066,478	2,779,167	11.6	59
Intergovernmental	2,283,250	1,903,238	1,570,309	6.5	33
Charges of services	1,044,320	1,131,625	1,034,854	4.3	22
Fines and forfeits	276,693	324,512	332,694	1.4	7
Special assessments	2,468	-	-	-	-
Interest on investments	526,336	358,753	260,263	1.1	6
Miscellaneous	142,814	144,223	170,876	0.7	4
Transfers in	2,659,532	2,558,321	2,685,300	11.2	57
Total revenues and transfers	\$ 22,208,393	\$ 23,722,358	\$ 23,996,255	100.0 %	\$ 509

Revenues and Transfers



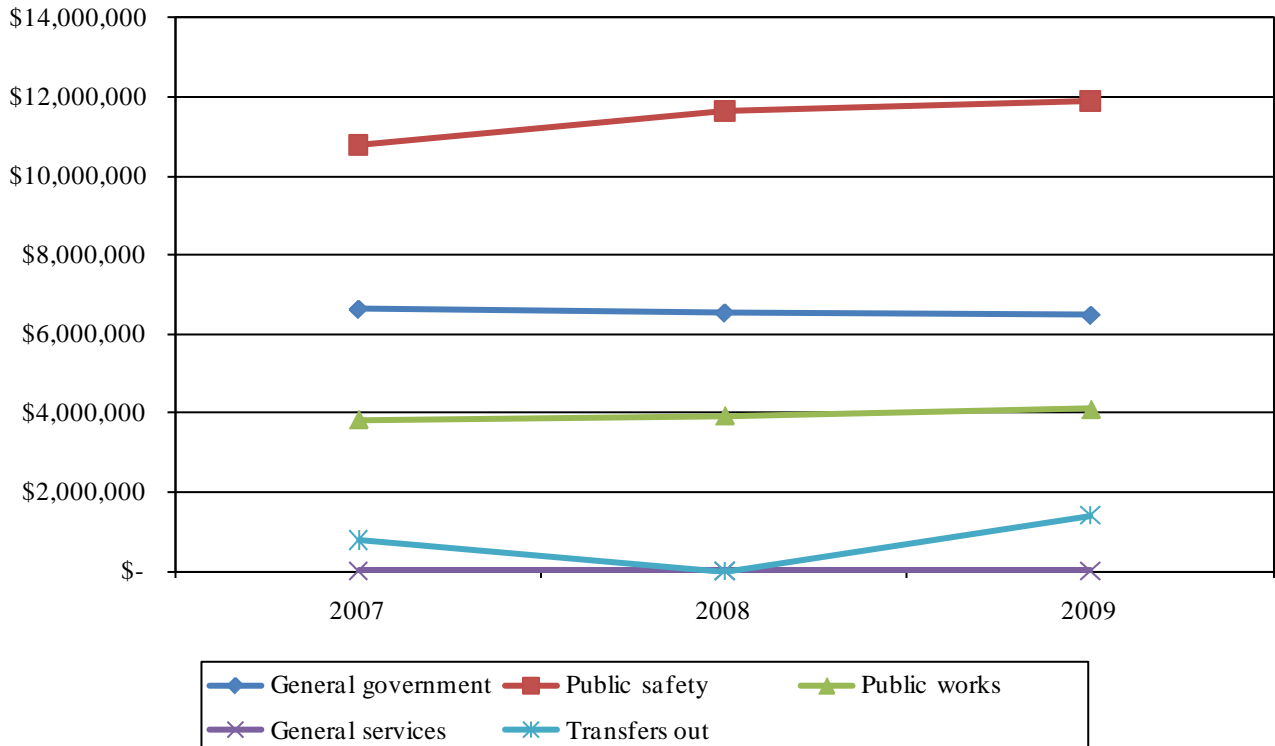


A comparison of expenditures and transfers out for the last three years follows:

Program	2007	2008	2009	Percent of Total	Per Capita	Peer Group Per Capita
General government	\$ 6,630,661	\$ 6,535,398	\$ 6,472,022	27.1 %	\$ 137	\$ 90
Public safety	10,797,256	11,643,136	11,904,138	49.9	252	223
Public works	3,826,855	3,928,477	4,094,051	17.1	87	89
General services	6,830	2,653	7,662	-	-	2
Transfers out	785,000	-	1,400,000	5.9	30	n/a
Total expenditures and transfers	\$ 22,046,602	\$ 22,109,664	\$ 23,877,873	100.0 %	\$ 506	\$ 404

The above chart compares the amount the City spends per capita, in comparison to a peer group. The peer group averages are compiled from information from the Minnesota Office of the State Auditor for 2nd Class cities.

Expenditures and Transfers





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. A summary of fund balances follows:

Fund	Fund Balances (deficits)		Increase (Decrease)
	December 31,		
	2009	2008	
Major			
Parks and Recreation	\$ 870,549	\$ 497,263	\$ 373,286
Housing Rehabilitation	820,005	1,729,807	(909,802)
Nonmajor			
Cable Television	1,353,006	1,632,217	(279,211)
Community Development	(5,698)	(6,568)	870
Special Service District #1	179,722	138,852	40,870
Special Service District #2	20,261	7,851	12,410
Special Service District #3	47,535	52,780	(5,245)
Special Service District #4	67,429	48,239	19,190
Special Service District #5	12,030	-	12,030
Special Service District #6	11,147	-	11,147
Police and Fire Pensions	5,240,732	5,446,950	(206,218)
Total	<u>\$ 8,616,718</u>	<u>\$ 9,547,391</u>	<u>\$ (930,673)</u>

The reduction in the Cable Television fund was a result of capital outlay that was not budgeted. The reduction in the Police and Fire Pensions fund was a result of transferring \$307,572 to the Fire Station Project fund and the General fund.



Capital Projects Funds

The capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by enterprise funds. Included in this group of funds and the fund balance of each at December 31 for 2009 and 2008 is as follows:

Fund	Fund Balances (deficits) December 31,		Increase (Decrease)
	2009	2008	
Major			
Permanent Improvement Revolving	\$ 8,768,647	\$ 8,620,404	\$ 148,243
Street Capital Projects	(4,970,481)	(3,343,441)	(1,627,040)
Development EDA	24,579,348	26,248,575	(1,669,227)
Redevelopment District	6,398,168	9,992,626	(3,594,458)
Nonmajor			
Municipal Building	-	472,810	(472,810)
Fire Station Bonds	(250)	(627)	377
Park Improvement	1,987,774	2,246,952	(259,178)
Pavement Management	1,542,128	1,657,652	(115,524)
Total	<u>\$ 38,305,334</u>	<u>\$ 45,894,951</u>	<u>\$ (7,589,617)</u>

It appears that most of the capital project funds have sufficient fund balances for working capital except for the Street Capital Projects fund. Management should determine future funding sources for this fund to decrease the deficit balance. The City annually reviews capital projects and closes funds when associated projects have been completed. This is a good monitoring process that ensures status is evaluated and should be continued.



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

A comparison of the assets of each fund and the remaining bonds outstanding at year end are as follows:

Fund	Debt Description	December 31, 2009			Final Maturity Date
		Total Cash	Total Assets	Remaining Bonds	
3890	G.O. Tax Increment Bond, 2008B	\$ 346,781	\$ 348,592	\$ 5,490,000	02/01/24
3870	G.O. Improvements Bond, 2005A	521,638	523,534	2,880,000	02/01/16
3850	G.O. Tax Increment Refunding Bond, 2004	7,706	7,706	1,415,000	02/01/18
3450	G.O. Improvements Bond, 2003	506,693	508,476	2,240,000	02/01/14
3835	G.O. Tax Increment Refunding Bond, 2009A	5,147	5,147	1,500,000	02/01/11
3600	G.O. Improvement Bond, 2000 - Reserve	325,000	325,000	-	Matured
3610	G.O. Improvement Bond, 2000	185,726	4,055,726	3,870,000	02/01/30
3400	G.O. Improvement Bond, 1999	348,461	349,727	600,000	02/01/11
	Total	<u>\$ 2,247,152</u>	<u>\$ 6,123,908</u>	<u>\$ 17,995,000</u>	

The City should review potential uses of remaining net assets in funds that have completed their purpose. TIF funds need to be used for a purpose consistent with the TIF plan and remaining resources in G.O. Improvement bonds can be used for whatever the council deems appropriate.



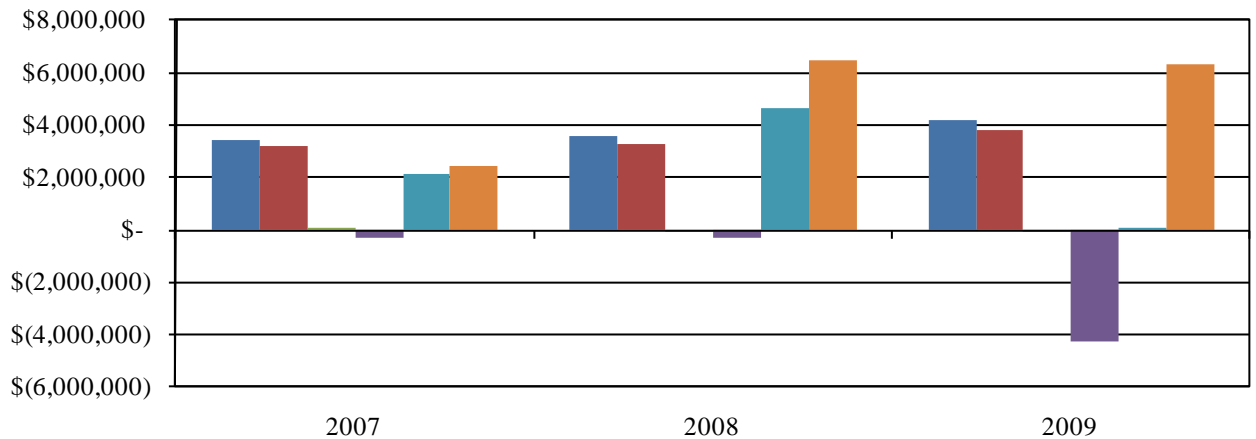
Enterprise Funds

The activities of the Enterprise funds include the municipal water utility, sewer utility, refuse, storm water utility and wireless operations.

Water Utility Fund

A comparison of the past three year's Water Utility fund operations is as follows:

	2007		2008		2009	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 3,460,541	100.0 %	\$ 3,584,384	100.0 %	\$ 4,218,313	100.0 %
Operating expenses	3,228,875	93.3	3,283,197	91.6	3,847,236	91.2
Operating income	231,666	6.7	301,187	8.4	371,077	8.8
Nonoperating revenues (expenses)	46,841	1.4	(26,546)	(0.7)	(90,784)	(2.2)
Transfers	(538,882)	(16.7)	(533,656)	(16.3)	(4,568,147)	(118.7)
Change in net assets	<u>\$ (260,375)</u>	<u>(8.6) %</u>	<u>\$ (259,015)</u>	<u>(8.6) %</u>	<u>\$ (4,287,854)</u>	<u>(112.1) %</u>
Cash and temporary investments	<u>\$ 2,109,647</u>		<u>\$ 4,640,355</u>		<u>\$ 350</u>	
Bonds payable	<u>\$ 2,440,000</u>		<u>\$ 6,446,401</u>		<u>\$ 6,329,719</u>	



■ Operating revenues	■ Operating expenses	■ Nonoperating revenues (expenses)
■ Change in net assets	■ Cash and temporary investments	■ Bonds payable

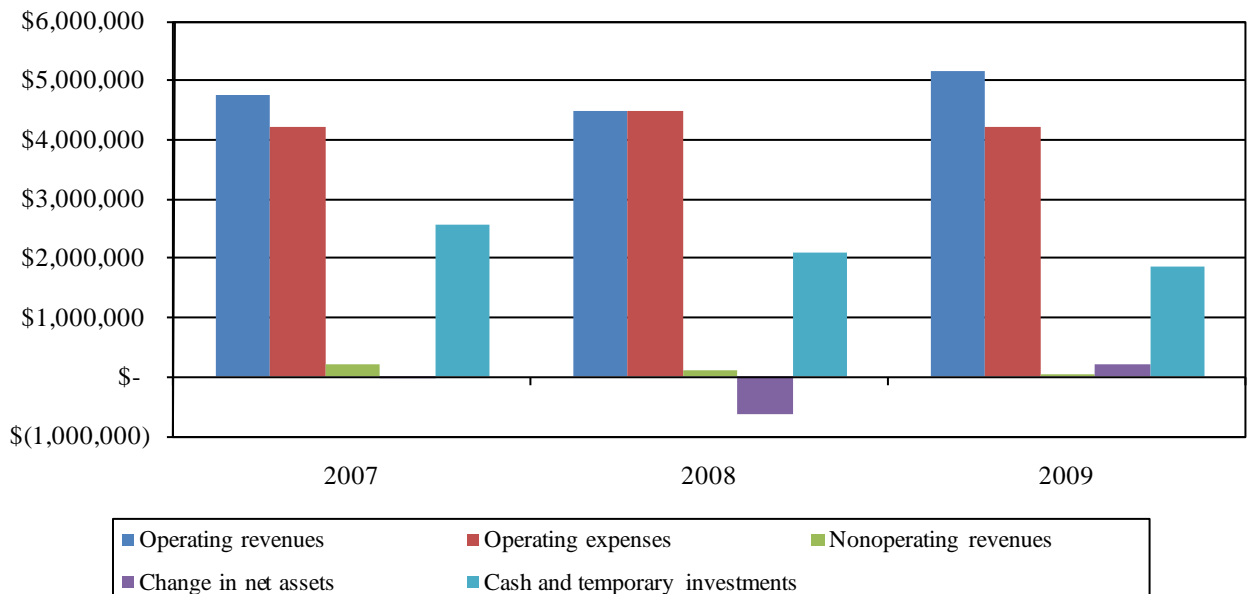
The cash balance significantly decreased over the prior year due to construction costs. The City plans to bond in 2010 to replenish the balance.



Sewer Utility Fund

A comparison of the past three year's Sewer Utility fund operations is as follows:

	2007		2008		2009	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 4,764,952	100.0 %	\$ 4,482,087	100.0 %	\$ 5,152,609	100.0 %
Operating expenses	4,199,659	88.1	4,485,386	100.1	4,228,680	82.1
Operating income (loss)	565,293	11.9	(3,299)	(0.1)	923,929	17.9
Nonoperating revenues	221,981	4.7	101,604	2.3	47,327	0.9
Transfers	(790,849)	(18.8)	(741,334)	(16.5)	(764,244)	(18.1)
Change in net assets	<u>\$ (3,575)</u>	<u>(2.2) %</u>	<u>\$ (643,029)</u>	<u>(14.3) %</u>	<u>\$ 207,012</u>	<u>0.7 %</u>
Cash and temporary investments	<u>\$ 2,581,105</u>		<u>\$ 2,083,067</u>		<u>\$ 1,851,591</u>	



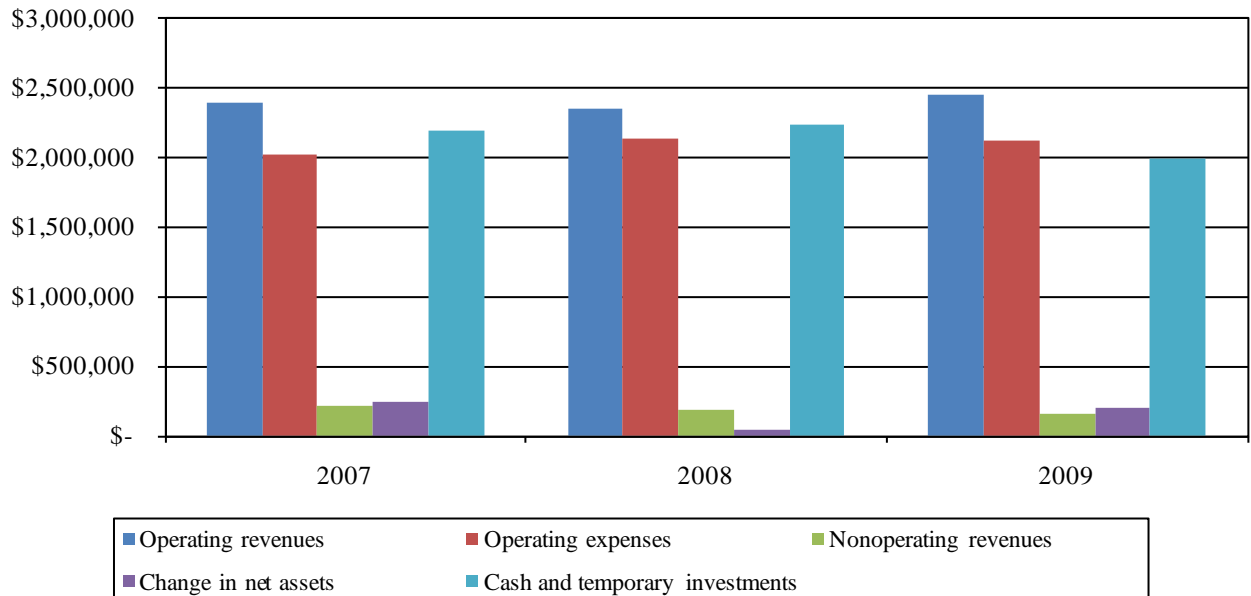
The current cash balance decreased when compared with the prior year due to loans to other funds. It is important to keep an updated cash flow projection to ensure rates are sufficient to cover increasing costs.



Solid Waste Fund

A comparison of the past three year's Solid Waste fund operations is as follows:

	2007		2008		2009	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 2,395,469	100.0 %	\$ 2,347,995	100.0 %	\$ 2,458,383	100.0 %
Operating expenses	<u>2,019,595</u>	<u>84.3</u>	<u>2,135,677</u>	<u>91.0</u>	<u>2,125,540</u>	<u>86.5</u>
Operating income	375,874	15.7	212,318	9.0	332,843	13.5
Nonoperating revenues	215,984	9.0	181,046	7.7	152,299	6.2
Transfers	<u>(348,866)</u>	<u>(17.3)</u>	<u>(353,299)</u>	<u>(16.5)</u>	<u>(288,100)</u>	<u>(13.6)</u>
Change in net assets	<u>\$ 242,992</u>	<u>7.4 %</u>	<u>\$ 40,065</u>	<u>0.2 %</u>	<u>\$ 197,042</u>	<u>6.1 %</u>
Cash and temporary investments	<u>\$ 2,191,412</u>		<u>\$ 2,244,381</u>		<u>\$ 1,999,051</u>	



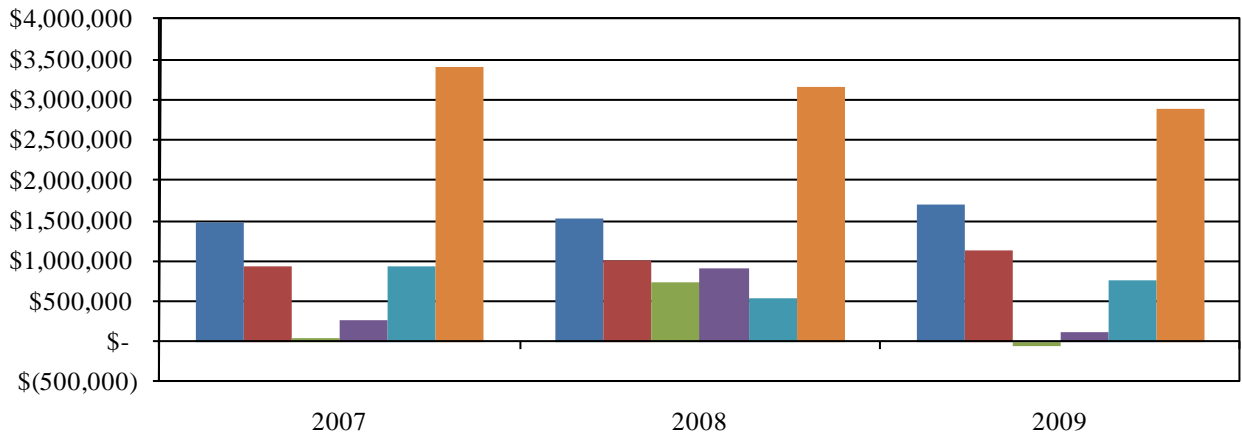
The current cash balance decreased slightly when compared with the prior year due to an interfund loan to the water fund. It is important to keep an updated cash flow projection to ensure rates are sufficient to cover increasing costs.



Storm Water Utility Fund

A comparison of the past three year's Storm Water Utility fund operations is as follows:

	2007		2008		2009	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 1,470,529	100.0 %	\$ 1,529,180	100.0 %	\$ 1,699,557	100.0 %
Operating expenses	942,746	64.1	1,017,093	66.5	1,143,767	67.3
Operating income	527,783	35.9	512,087	33.5	555,790	32.7
Nonoperating revenues (expenses)	49,032	3.3	732,635	47.9	(65,340)	(3.8)
Transfers	(317,694)	(33.7)	(328,438)	(32.3)	(368,491)	(32.2)
Change in net assets	\$ 259,121	5.5 %	\$ 916,284	49.1 %	\$ 121,959	(3.3) %
Cash and temporary investments	\$ 924,907		\$ 529,059		\$ 758,716	
Bonds payable	\$ 3,395,000		\$ 3,149,389		\$ 2,879,091	



■ Operating revenues	■ Operating expenses	■ Nonoperating revenues (expenses)
■ Change in net assets	■ Cash and temporary investments	■ Bonds payable

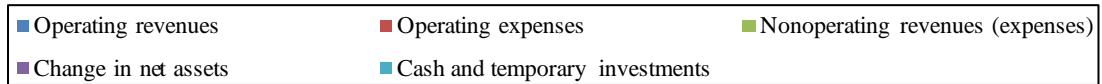
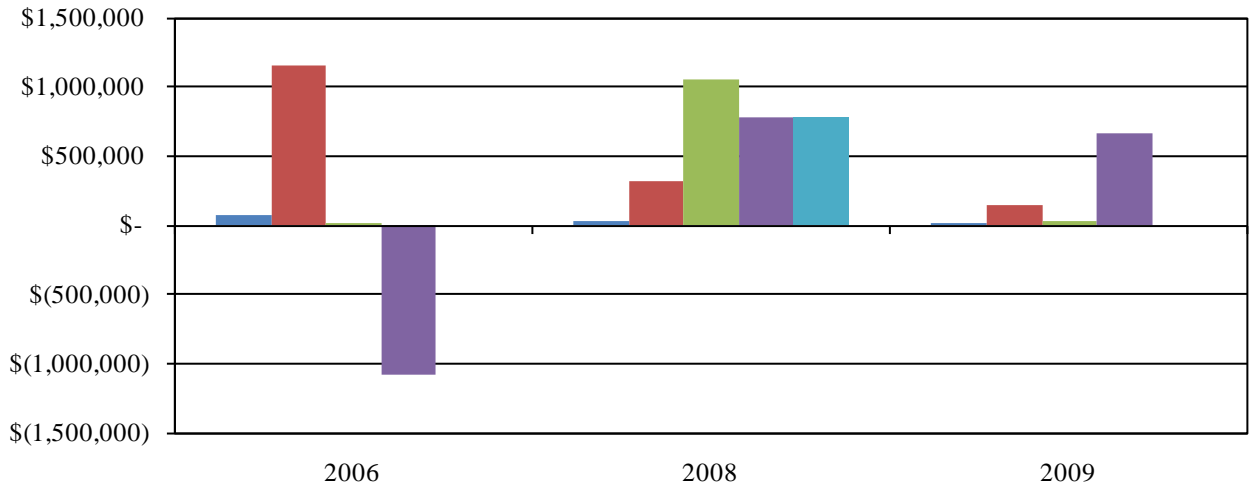
The current cash balance increased when compared with the prior year. It is important to keep an updated cash flow projection to ensure rates are sufficient to cover increasing costs.



Wireless Fund

A summary of the past three year's Wireless fund operations are as follows:

	2007		2008		2009	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 68,606	100.0 %	\$ 32,592	100.0 %	\$ 140	100.0 %
Operating expenses	1,151,751	1678.8	315,664	968.5	151,708	108362.9
Operating loss	(1,083,145)	(1578.8)	(283,072)	(868.5)	(151,568)	(108262.9)
Nonoperating revenues (expenses)	353	0.5	1,059,114	3249.6	33,274	23767.1
Change in net assets	<u>\$ (1,082,792)</u>	<u>(1578.3) %</u>	<u>\$ 776,042</u>	<u>2381.1 %</u>	<u>\$ 668,376</u>	<u>(83977.3) %</u>
Cash and temporary investments	<u>\$ -</u>		<u>\$ 781,437</u>		<u>\$ -</u>	



The Wireless fund was closed as of December 31, 2009. All remaining assets and liabilities were transferred to the Development EDA fund.



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. The peer group average represented below consists of Minnesota cities of the 2nd class (population 20,000 to 100,000). 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	2006	2007	2008	2009
Debt to assets	Total liabilities/total assets	Government-wide	20% 24%	19% 23%	21% 23%	17% N/A
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	192% 241%	339% 247%	199% 247%	203% N/A
Debt per capita	Bonded debt/population	Government-wide	\$ 723 \$ 1,389	\$ 708 \$ 1,485	\$ 769 \$ 1,485	\$ 577 N/A
Taxes per capita	Tax revenues/population	Government-wide	\$ 560 \$ 381	\$ 613 \$ 408	\$ 604 \$ 408	\$ 625 N/A
Current expenditures per capita	Current expenditures / population	Governmental funds	\$ 876 N/A	\$ 805 \$ 620	\$ 811 \$ 593	\$ 793 N/A
Capital expenditures per capita	Capital expenditures / population	Governmental funds	\$ 103 N/A	\$ 130 \$ 435	\$ 221 \$ 304	\$ 218 N/A
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	74% 70%	66% 69%	66% 69%	66% N/A
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	51% 65%	53% 64%	53% 64%	53% N/A

Represents the City of St. Louis Park
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 financing with outstanding debt).

Debt Service Coverage Ratio (Solvency Ratio)

The debt coverage ratio is a comparison of cash generated by operations to total debt service payments (principal and interest) of enterprise funds. This ratio indicates if there are sufficient cash flows from operations to meet debt service obligations. Except in cases where other nonoperating revenues (i.e. taxes, assessments, transfers from other funds, etc.) are used to fund debt service payments, an acceptable ratio would be above 100 percent.

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. Of the total taxes, 21 percent is related to tax increments or approximately \$120 per capita.

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) Statements have been issued and may have an impact on future City financial statements:

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 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.



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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 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 continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

June 10, 2010
Minneapolis, Minnesota