ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

February 23, 2006

Grandview Square
5201 Eden Avenue
Suite 370
Edina, MN 55436

Honorable Mayor and Council
City of Melrose
Melrose, 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 Melrose, Minnesota (the City) for the year ended December 31, 2005 and have issued our report thereon dated February 23, 2006. 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 and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

In planning and performing our audit of the financial statements of the City, for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions. We noted no instances of non-compliance with Minnesota statutes.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We had no unadjusted audit differences.

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Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City implemented the requirements of GASB Statement No. 40 in 2005. This changed the footnote disclosure related to deposits and investments. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter 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.

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 City'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.

Issues Discussed Prior to Retention of Independent Auditors

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.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

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Other Matters

Financial Position and Results of Operations

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

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 decreased $33,765 from 2004. The fund balance of $761,836 is 39 percent of the 2005 expenditures and transfers out. 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 fund balance includes amounts reserved and designated as shown below:

	2002	2003	2004	2005
Reserved for				
Due from other funds	$ 18,472	$ 69,840	$ 43,182	$ 65,646
Prepaid items	4,098	4,824	4,541	4,162
Unreserved				
Designated for subsequent year's budget	-	-	-	-
Designated for insurance reserve	11,142	4,807	4,658	4,892
Designated for vacation and sick leave benefits	33,177	33,330	37,786	27,381
Designated for working capital	550,000	531,529	550,000	550,000
Undesignated	12,958	43,636	155,434	109,755
Total	$ 629,847	$ 687,966	$ 795,601	$ 761,836
Total expenditures and transfers out	$ 2,134,642	$ 1,707,062	$ 1,657,881	$ 1,942,571
Total fund balance as a percent of expenditures	29.51 %	40.30 %	47.99 %	39.22 %

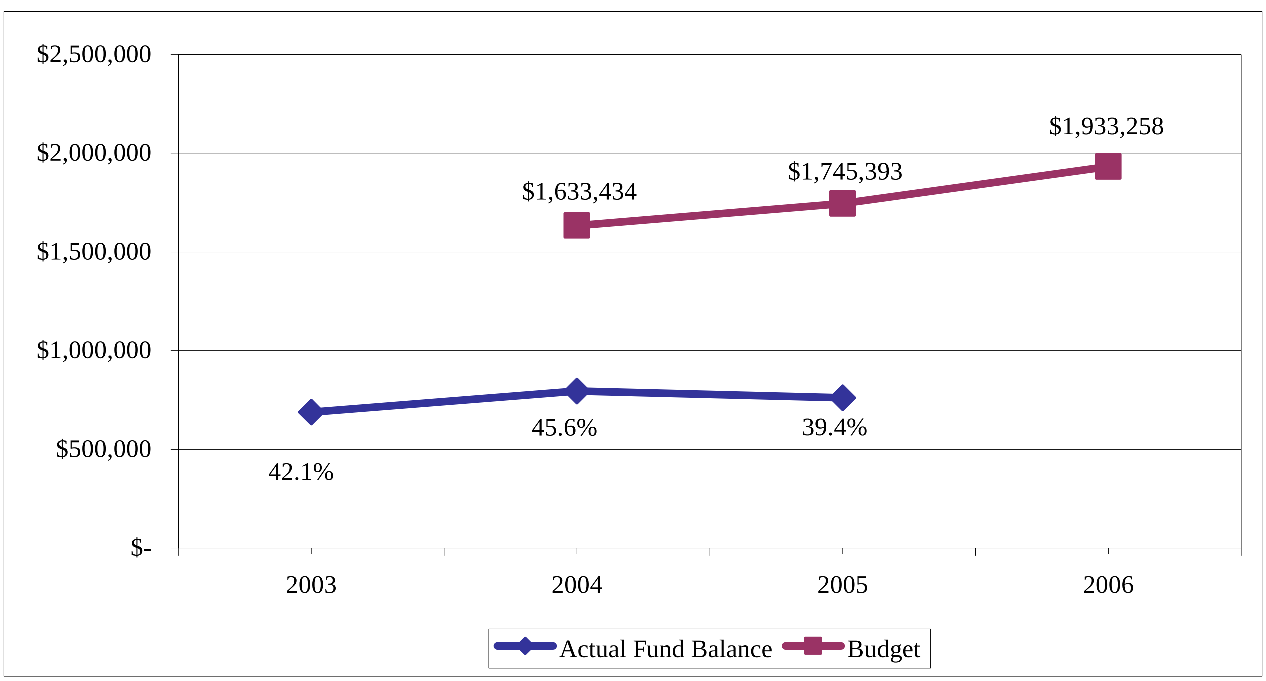
The Minnesota Office of the State Auditor has classified cities' unreserved fund balance levels relative to expenditures as follows:

Extremely low	Under 20%
Low	21 - 34
Acceptable	35 - 50
Moderately high	51 - 64
High	65 - 100
Very high	101 - 150
Extremely high	Above 150

The State Auditor does group all general and special revenue funds of the city when making this calculation where our calculation is based only on the General fund. Although there is no legislation regulating fund balance, it is a good policy to designate intended use of fund balance. This helps address citizen concerns as to the use of fund balance and tax levels. As shown above, the City does make formal designations of fund balance. The following table and graph further highlight the fund balance relative to planned expenditures.

Year	Unreserved Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2003	$ 687,966	2004	$ 1,633,434	42.1 %
2004	795,601	2005	1,745,393	45.6
2005	761,836	2006	1,933,258	39.4

Fund Balance as a Percent of Next Year's Budget



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It becomes necessary for the City to maintain a reserve for the following reasons:

Purposes and Benefits of Maintaining a Fund Balance

- 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 General fund expenditures.
- The City is vulnerable to legislative actions at the State and Federal level. The State eliminated HACA aid with the 2001 legislative session and imposed reductions of market value credit aid and local government aid for some cities. 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 maintaining, improving or obtaining a bond rating.

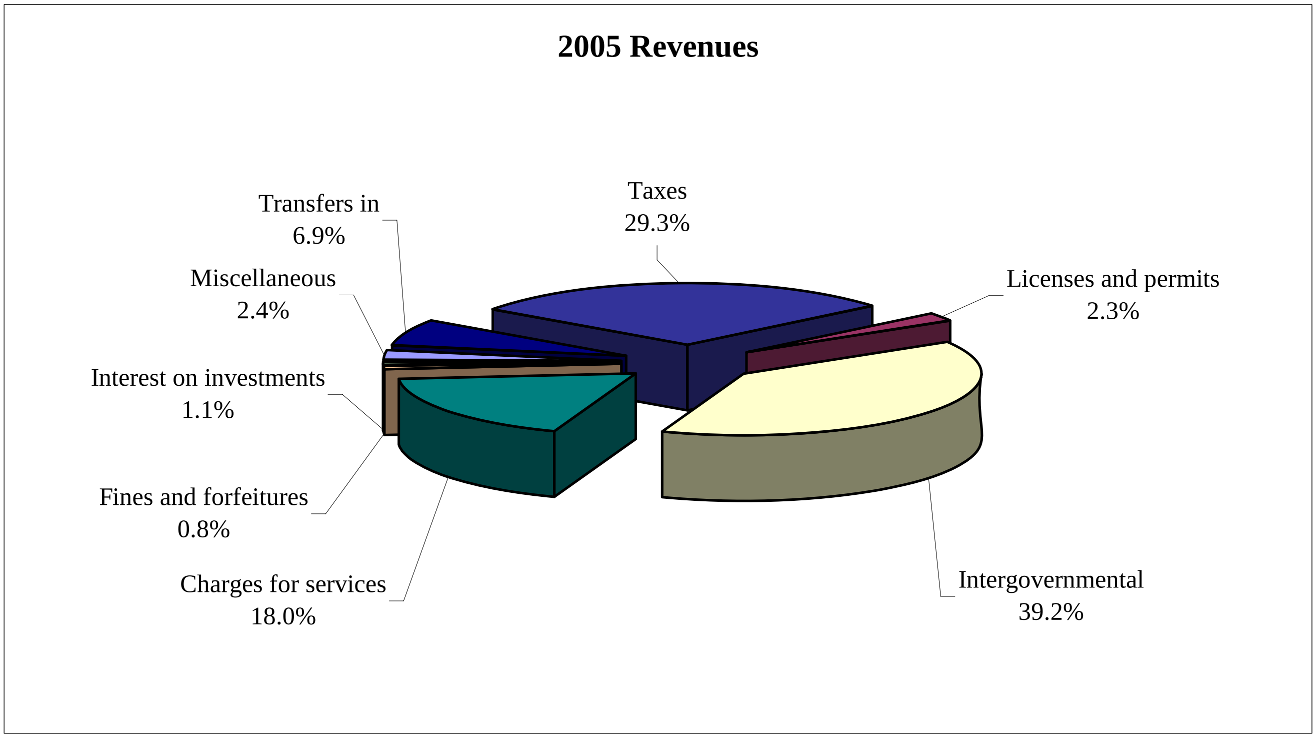
A summary of the 2005 operations are as follows:

	Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues	$ 1,614,555	$ 1,750,406	$ 135,851
Expenditures	1,530,161	1,463,329	66,832
Excess of revenues over expenditures	84,394	287,077	202,683
Other financing sources (uses)			
Land sale	-	26,850	26,850
Transfers in	130,838	131,549	711
Transfers out	(215,232)	(479,241)	(264,009)
Total other financing sources (uses)	(84,394)	(320,842)	(236,448)
Net change in fund balances	$ -	(33,765)	$ (33,765)
Fund balances, January 1		795,601	
Fund balances, December 31		$ 761,836	

A summary and comparison of 2005 and 2004 General fund revenues and transfers in, is as follows:

Revenue Source	2005	Percent of Total	2004	Increase (Decrease) From 2004
Taxes	$ 560,146	29.3 %	$ 466,745	$ 93,401
Licenses and permits	43,176	2.3	46,673	(3,497)
Intergovernmental	748,650	39.2	731,336	17,314
Charges for services	343,521	18.0	252,751	90,770
Fines and forfeitures	14,730	0.8	24,270	(9,540)
Special assessments	45	-	-	45
Interest on investments	20,226	1.1	12,447	7,779
Miscellaneous	46,762	2.4	103,489	(56,727)
Transfers in	131,549	6.9	127,805	3,744
Total revenues and transfers	$ 1,908,805	100.0 %	$ 1,765,516	$ 143,289

The sources of 2005 revenues are presented graphically as follows:



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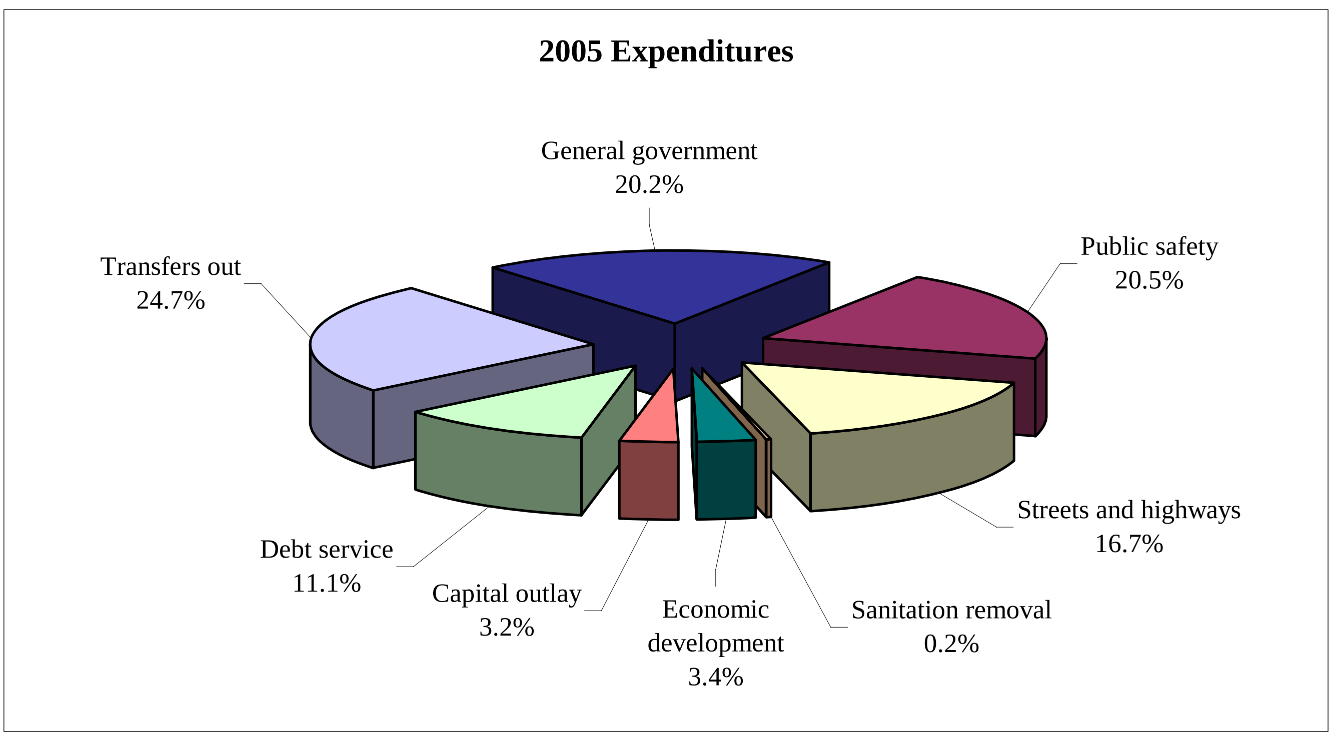
A summary and comparison of 2005 and 2004 General fund expenditures and transfers out, is as follows:

Program	2005	Percent of Total	2004	Increase (Decrease) From 2004
Current				
General government	$ 391,538	20.2 %	$ 343,065	$ 48,473
Public safety	397,880	20.5	390,326	7,554
Streets and highways	324,574	16.7	288,603	35,971
Sanitation removal	3,228	0.2	3,647	(419)
Economic development	66,926	3.4	62,662	4,264
Total current	1,184,146	61.0	1,088,303	95,843
Capital outlay	62,932	3.2	11,838	51,094
Debt service	216,251	11.1	208,386	7,865
Transfers out	479,241	24.7	349,354	129,887
Total expenditures and transfers	$ 1,942,570	100.0 %	$ 1,657,881	$ 284,689

The 2005 expenditures are presented graphically as follows:



Nonmajor Special Revenue Funds

The nonmajor special revenue funds account for revenue sources that are legally restricted to expenditures for specified purposes (not including major capital projects). The funds in this account group include:

	Fund Balances (Deficits) December 31,		
Fund	2005	2004	Increase (Decrease)
Business Improvement Loans	$ 10,133	$ 17,450	$ (7,317)
Melrose Area Development authority (MADA)	(175,757)	(337,528)	161,771
Parks and Recreation	(539,119)	(602,576)	63,457
MADA Revolving Loan	394,859	258,581	136,278
Soccer League	422	422	-
Senior Activity Center	2,735	1,817	918
PIA Asset Building	854	1,824	(970)
Fire Department	114,044	54,427	59,617
Tax Increment Projects	-	1	(1)
Total	$ (191,829)	$ (605,582)	$ 413,753

Business Improvement Loans

This fund was added in 1997 to provide loan sources for local businesses. Financing came from contributions and transfers from the Melrose Area Development Authority.

Melrose Area Development Authority (MADA)

The focus of the fund will be business development. The deficit is being financed by other funds and was a result of planned capital outlay in excess of reserves.

Parks and Recreation

Transfers from the General fund along with contribution commitments from civic organizations provide the funding for the activities of the Parks and Recreation fund. The deficit will be eliminated over time with these transfers and contributions.

MADA Revolving Loan

This fund was established with a low interest loan from US Bank. The proceeds were used for local business loans. At year end, $339,766 is outstanding on those loans.

Tax Increment Financing Districts

These funds were created in 1997 to account for the City's pay-as-you-go districts. They are also used to account for the amounts due to the General fund and the 1992 Abandoned Railroad Property Project Fund for costs paid in past years.

Debt Service Funds

Debt service funds account for the servicing of general long-term debt not being financed by proprietary funds. The funds in this group include:

Debt Description	Cash Balance	Total Assets	Bounds Outstanding	Year of Maturity
Improvement Bonds of 2002	$ 103,762	$ 273,128	$ 665,000	12/01/17
Equipment Certificates of 2003	8,134	8,134	145,000	12/01/07
Improvement Bonds of 2004	76,428	286,973	985,000	02/01/20
Improvement Bonds of 2005A	5,459	566,072	2,545,000	02/01/21
Total G.O. Bonds	$ 193,783	$ 1,134,307	$ 4,340,000	

Capital Projects Funds

The capital projects funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds. The funds in this group include:

Fund	Fund Balances (Deficits) December 31, 2005	2004	Increase (Decrease)
Major			
Capital improvements	$ 2,226,406	$ 2,210,368	$ 16,038
2005 Capital Improvements	322,601	(1,067)	323,668
2004 I-94 Industrial Park Improvements	167,812	424,439	(256,627)
Total major	2,716,819	2,633,740	83,079
Nonmajor			
1992 Abandoned Railroad Property Project	503	(147,023)	147,526
2003 Capital Improvements	-	5,746	(5,746)
2003 Equipment	119,383	165,592	(46,209)
Kraft Drive Extension	637,692	38,561	599,131
Tri Quality Improvement	(4,190)	-	(4,190)
EBM Improvement	(4,220)	-	(4,220)
Total nonmajor	749,168	62,876	686,292
Total	$ 3,465,987	$ 2,696,616	$ 769,371

In 1990, several of the designated funds within the General fund were transferred to establish the Capital Improvement fund. Other revenue sources, which were available, have been transferred to this fund. This fund gives the City the ability to finance its capital improvement projects internally rather than issuing bonds and incurring the related issuance costs. The City has also planned well for its use through a thorough fund balance designation policy

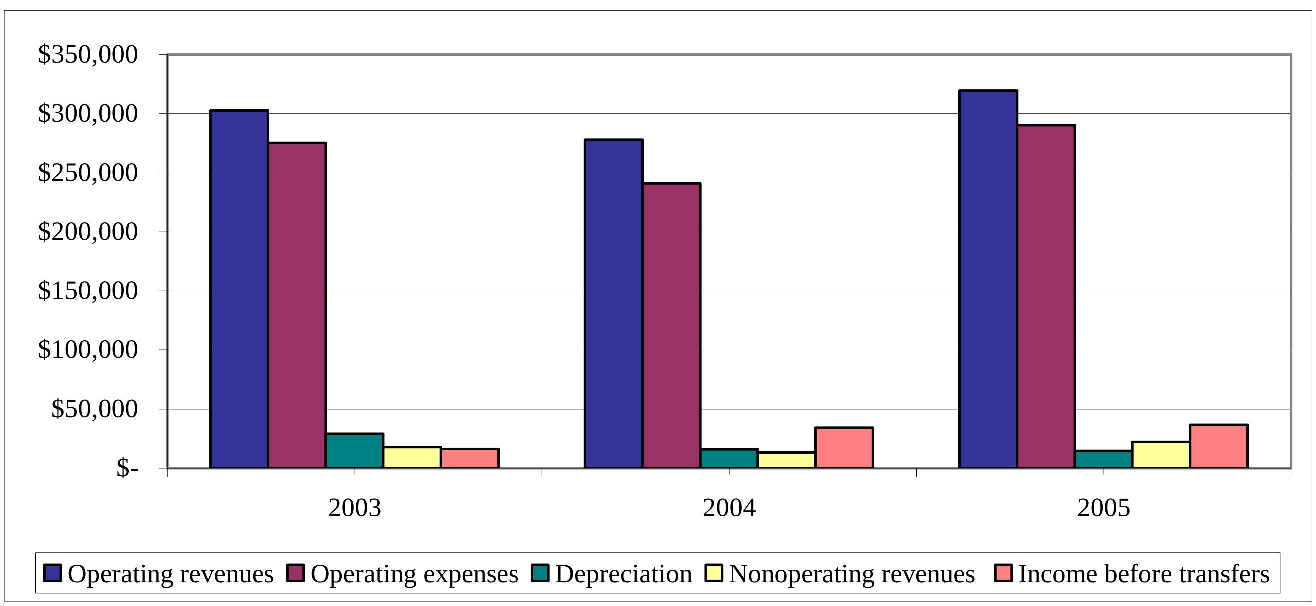
Proprietary Funds

The operations of the Ambulance fund for the past three years are summarized as follows:

Ambulance Fund Operations

	2003		2004		2005	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
Operating revenues	$ 302,810	100.0 %	$ 277,962	100.0 %	$ 319,632	100.0 %
Operating expenses	(275,248)	(90.9)	(240,928)	(86.7)	(290,380)	(90.8)
Depreciation	(29,238)	(9.7)	(15,983)	(5.8)	(14,552)	(4.6)
Operating income (loss)	(1,676)	(0.6)	21,051	7.6	14,700	4.6
Nonoperating revenues	17,790	5.9	13,100	4.7	22,025	6.9
Change in net assets	$ 16,114	5.3 %	$ 34,151	12.3 %	$ 36,725	11.5 %
Cash and investments	$ 430,149		$ 458,476		$ 521,669	

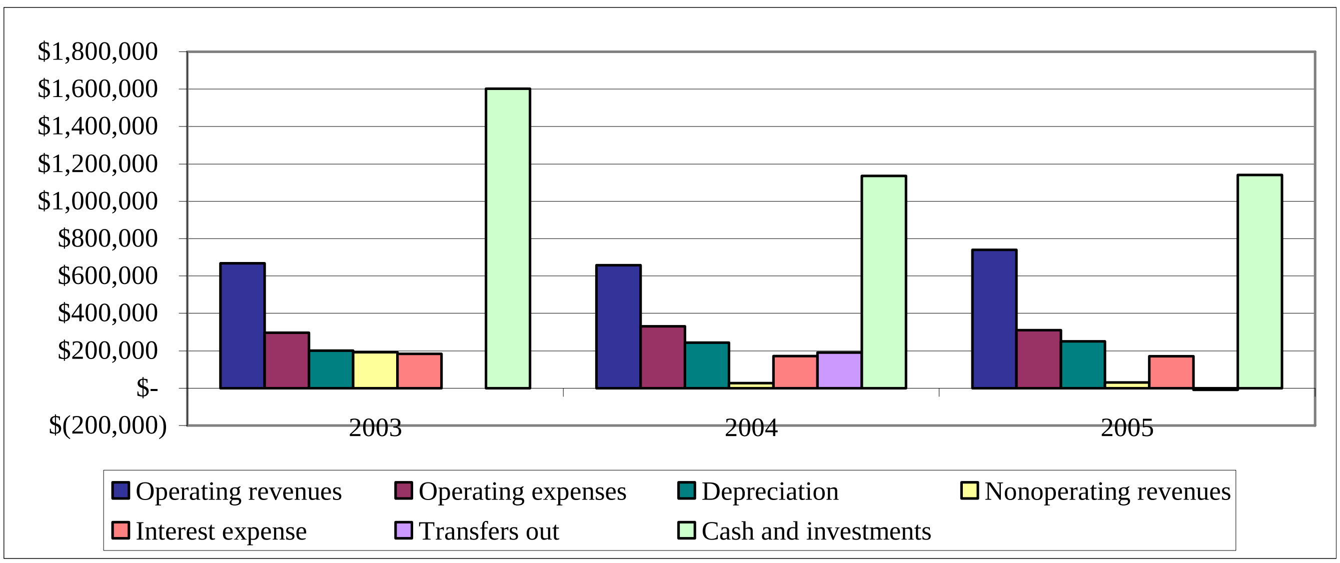
The cash balance is at a level sufficient to provide for working capital and other needs.



The operations of the Water fund for the past three years are summarized as follows:

Water Fund Operations

	2003		2004		2005	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
Operating revenues	$ 668,269	100.0 %	$ 659,160	100.0 %	$ 740,744	100.0 %
Operating expenses	(297,204)	(44.5)	(330,934)	(50.2)	(310,180)	(41.9)
Depreciation	(201,251)	(30.1)	(242,855)	(36.8)	(250,087)	(33.8)
Operating income	169,814	25.4	85,371	13.0	180,477	24.4
Nonoperating revenues	192,000	28.7	27,737	4.2	31,097	4.2
Interest expense	(184,128)	(27.6)	(172,729)	(26.2)	(169,966)	(22.9)
Income before transfers	177,686	26.6	(59,621)	(9.0)	41,608	5.6
Contributed assets	-	-	-	-	101,349	13.7
Transfers out	-	-	(190,607)	(28.9)	(9,266)	(1.3)
Change in net assets	$ 177,686	26.6 %	$ (250,228)	(38.0) %	$ 133,691	18.0 %
Cash and investments	$ 1,601,937		$ 1,135,886		$ 1,140,805	
Loans and bonds payable	$ 4,363,700		$ 4,167,700		$ 5,291,700	

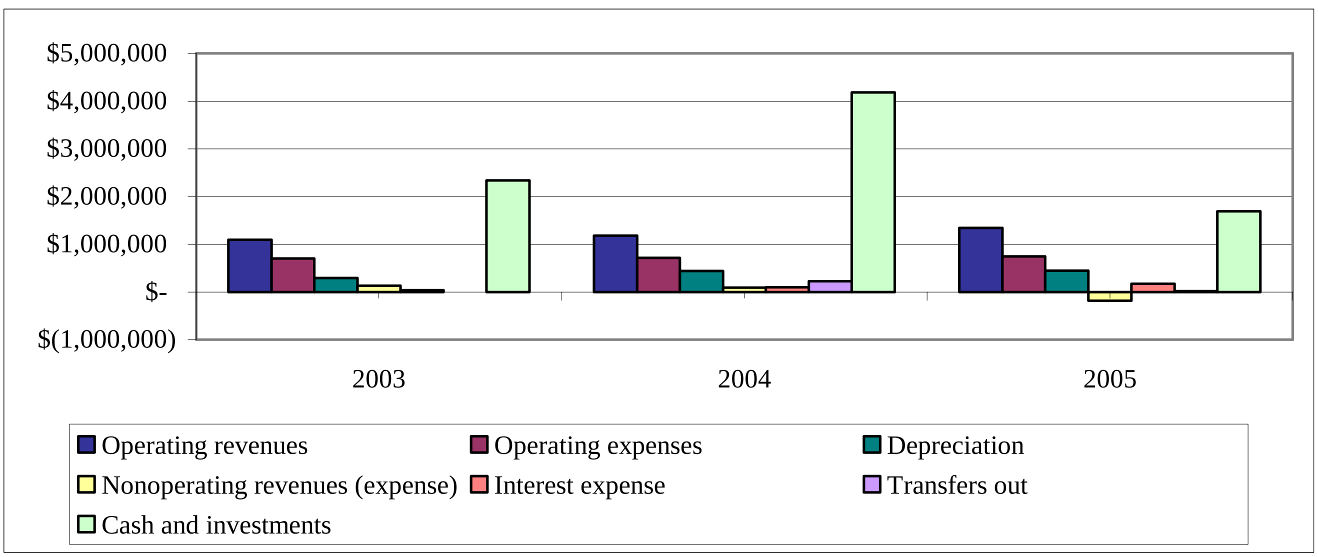


The operating income has been adequate to support cash flow needs in the past and is expected to remain sufficient but it is always important to review cash flow each year to determine if rates are adequate to cover operations and debt service.

The operations of the Wastewater fund for the past three years are summarized as follows:

Wastewater Fund Operations

	2003		2004		2005	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
Operating revenues	$ 1,092,355	100.0 %	$ 1,181,425	100.0 %	$ 1,339,806	100.0 %
Operating expenses	(700,824)	(64.2)	(712,414)	(60.3)	(743,030)	(55.5)
Depreciation	(290,922)	(26.6)	(437,752)	(37.1)	(443,074)	(33.1)
Operating income	100,609	9.2	31,259	2.6	153,702	11.5
Nonoperating revenues (expense)	130,000	11.9	91,475	7.7	(181,506)	(13.5)
Interest expense	(39,765)	(3.6)	(95,727)	(8.1)	(169,272)	(12.6)
Income before transfers	190,844	17.5	27,007	2.3	(197,076)	(14.7)
Contributed assets	-	-	-	-	127,371	9.5
Transfers out	-	-	(224,094)	(19.0)	(15,117)	(1.1)
Change in net assets	$ 190,844	17.5 %	$ (197,087)	(16.7) %	$ (84,822)	(6.3) %
Cash and investments	$ 2,338,289		$ 4,183,303		$ 1,690,099	
Loans and bonds payable	$ 750,000		$ 3,845,000		$ 3,700,000	

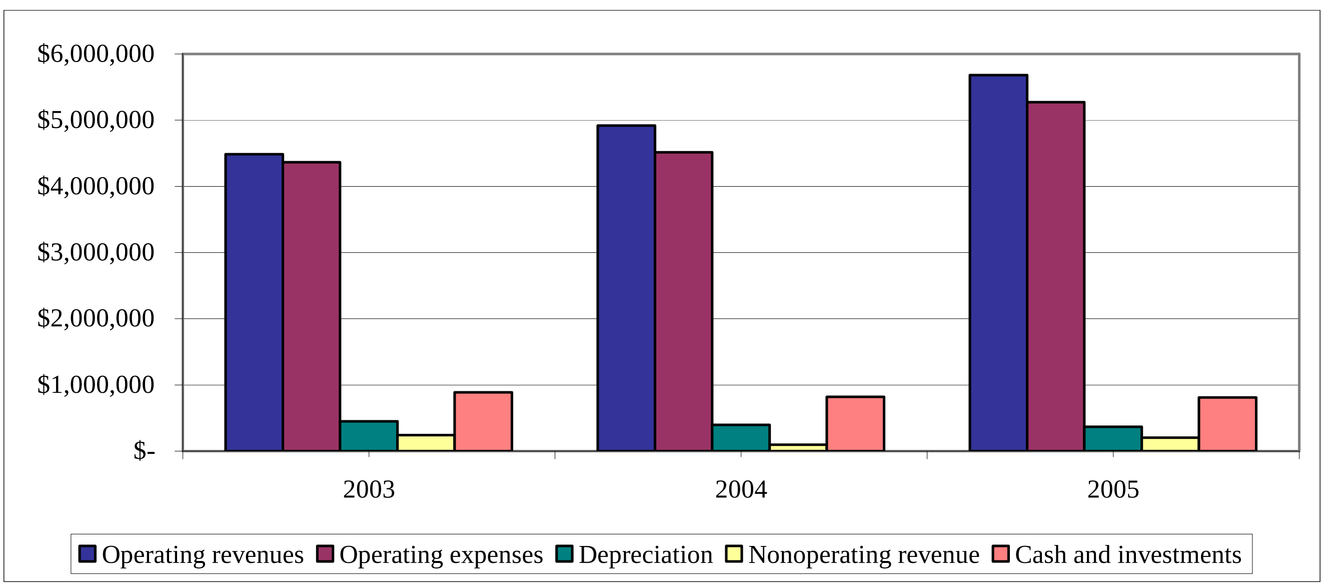


The cash balance remains strong in relation to operations but like the Water fund, it will be important to maintain cash flow to cover future debt service.

The operations of the Electric fund for the past three years are summarized as follows:

Electric Fund Operations

	2003		2004		2005	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Amount	Percent of Revenues
Operating revenues	$ 4,487,673	100.0 %	$ 4,920,582	100.0 %	$ 5,680,141	100.0 %
Operating expenses	(4,365,992)	(97.3)	(4,514,848)	(91.8)	(5,272,894)	(92.8)
Depreciation	(447,151)	(10.0)	(395,605)	(8.0)	(368,950)	(6.5)
Operating income (loss)	(325,470)	(7.3)	10,129	0.2	38,297	0.7
Nonoperating revenue	-	-	294,503	6.0	163,265	2.9
Loss on disposal of fixed assets	-	-	(114,132)	(2.3)	-	-
Income before transfers	(325,470)	(7.3)	190,500	3.9	201,562	3.5
Transfers out	(241,216)	(5.4)	(97,920)	(2.0)	(241,721)	(4.3)
Change in net assets	$ (566,686)	(12.6) %	$ 92,580	1.9 %	$ (40,159)	(0.7) %
Cash and investments	$ 885,752		$ 817,554		$ 811,462	



City Obligation to the Firefighter's Relief Association

The Council approves the Association's per year of service benefit level. The benefit level is currently $1,200 per year of active service. As the Council approves the retirement benefit level, the City is ultimately liable to provide these pension funds if the assets of the Association are not sufficient. In the annual report, the Association's liabilities exceeded their assets as follows:

	Required Supplementary Information				
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Benefit per Year of Service
12/30/05	$ 293,087	$ 317,757	$ (24,670)	92.2 %	$ 1,200
12/31/04	290,245	330,705	(40,460)	87.8	1,200
12/31/04	254,981	276,350	(21,369)	92.3	1,000
12/31/03	249,123	281,490	(32,367)	88.5	1,000
12/31/02	267,500	304,940	(37,440)	87.7	900
12/31/01	282,932	252,738	30,194	111.9	900
12/31/00	271,395	233,613	37,782	116.2	900

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. 42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

This statement is effective for periods beginning after December 15, 2004 and deals with the accounting and financial reporting for impairment of capital assets. According to the GASB, "This Statement improves financial reporting because it requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. Users of financial statements will better understand when impairments have occurred and what their financial impact is on the City. This statement also enhances comparability of financial statements between governments by requiring all governments to account for insurance recoveries in the same manner."

GASB Statement No. 43 - *Financial Reporting for Post employment Benefit Plans Other than Pension Plans*

This statement is effective one year prior to the effective date of Statement No. 45 for the employer or largest participating employer in the benefit plan for multiple-employer plans. According to Statement No. 43, "The objective of this statement is to establish uniform standards of financial reporting by State and local governmental entities for other post employment benefit plans (OPEB plans). The term other post employment benefits (OPEB) refers to post employment benefits other than pension benefits and includes (a) post employment healthcare benefits and (b) other types of post employment benefits (for example, life insurance) if provided separately from a pension plan. The term plans, in this context, refers to trust or other funds through which assets are accumulated to finance OPEB, and benefits are paid as they come due. This Statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The requirements of this statement apply whether an OPEB plan is reported as a trust or agency fund or a fiduciary component unit of a participating employer or plan sponsor, or the plan is separately reported by a public employee retirement system (PERS) or other entity that administers the plan."

GASB Statement No. 44 - *Economic Condition Reporting: The Statistical Section an amendment of NCGA Statement 1*

This statement only applies to statistical sections of financial statements. It is effective for periods beginning after June 15, 2005. The City currently does not prepare a statistical section.

GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*

This statement is effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999:

- Governments that were phase 1 governments for the purpose of implementation of Statement No. 34 - those with annual revenues of $100 million or more - are required to implement this Statement in financial statements for periods beginning after December 15, 2006.

- Governments that were phase 2 governments for the purpose of implementation of Statement No. 34 - those with total annual revenues of $10 million or more but less than $100 million - are required to implement this Statement in financial statements for periods beginning after December 15, 2007.

- Governments that were phase 3 governments for the purpose of implementation of Statement No. 34 - those with total annual revenues of less than $10 million - are required to implement this Statement in financial statements for periods beginning after December 15, 2008.

Statement No. 45 gives the following summary, "In addition to pensions, many state and local governmental employers provide other post employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post employment healthcare, as well as other forms of post employment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers."

GASB Statement No. 46 - *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*

This statement is effective for periods beginning after June 15, 2005. Statement No. 46 gives the following summary "GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. In the process of applying this provision, some governments have had difficulty interpreting the requirement that those restrictions be "legally enforceable." The confusion over this phrase has resulted in a diversity of practice that has diminished comparability.

This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government - such as citizens, public interest groups, or the judiciary - can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation."

GASB Statement No. 47 - *Accounting for Termination Benefits*

In general, Statement No. 47 is effective for financial statements for periods beginning after June 15, 2005. However, for termination benefits that affect defined benefit post employment benefits other than pensions, governments should implement Statement No. 47 simultaneously with Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions.* The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements.

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This report is intended solely for the information and use of management, Council and the Minnesota Office of 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

February 23, 2006
Minneapolis, Minnesota

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