CITY OF MAYER
MAYER, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2013

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

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February 27, 2014

Management, Honorable Mayor and City Council
City of Mayer, 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 Mayer, Minnesota, for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government 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 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 and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control over financial reporting of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control over financial reporting. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis of 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.

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.

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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 identified certain deficiencies in internal control, described below as items 2013-001 and 2013-002 that we consider to be significant deficiencies.

2013-001 Preparation of financial statements

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

Management response:

For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

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2013-002 Limited segregation of duties

Condition: During our audit we reviewed procedures over cash disbursements, cash receipts, payroll, and utility billing and found the City to have limited segregation of duties related to these procedures.

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

Cause: As a result of the small number of staff, in the disbursement cycle, the City Clerk has control over checks, posts to the general ledger, and prepares bank reconciliations. In the utility billing cycle, the City Clerk approves accounts, generate statements, post payments, and reconcile the bank statement.

Effect: The existence of the limited segregation of duties increases the risk of fraud.

Recommendation: While we recognize staff is not large enough to eliminate these deficiencies, we believe the risk can be reduced with continued monitoring. We recommend management annually review processes and evaluate the risk of fraud or error and design processes to mitigate this risk.

Management response:

Management will evaluate and implement segregations of duty controls where appropriate.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

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. 61 was adopted for the year ended December 31, 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- 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 City Council within the City's budget and are derived from each employee's estimated time to be spent servicing the respective functions of the City. These allocations are also used in allocating accrued compensated absences payable.

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

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Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 in each category. 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 February 27, 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 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.

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.

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Financial Position and Results of Operations

Our principal observations and recommendations are summarized below. 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 decreased $782,927 from 2012. The fund balance of $411,950 is 53.1 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 50 percent of planned expenditures and transfers out is adequate to meet working capital and small emergency needs.

The Office of the State Auditor (the OSA) has issued a *Statement of Position* relating to fund balance stating "a local government should identify fund balance separately between reserved and unreserved fund balance. The local government may assign and report some or all of the fund balance as designated and undesignated." The OSA also recommends local governments adopt a formal policy on the level of unreserved fund balance that should be maintained in the General and special revenue funds. This helps address citizen concerns as to the use of fund balance and tax levies.

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

- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the General fund expenditures.

- Expenditures not anticipated at the time the annual budget was adopted may need immediate City 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.

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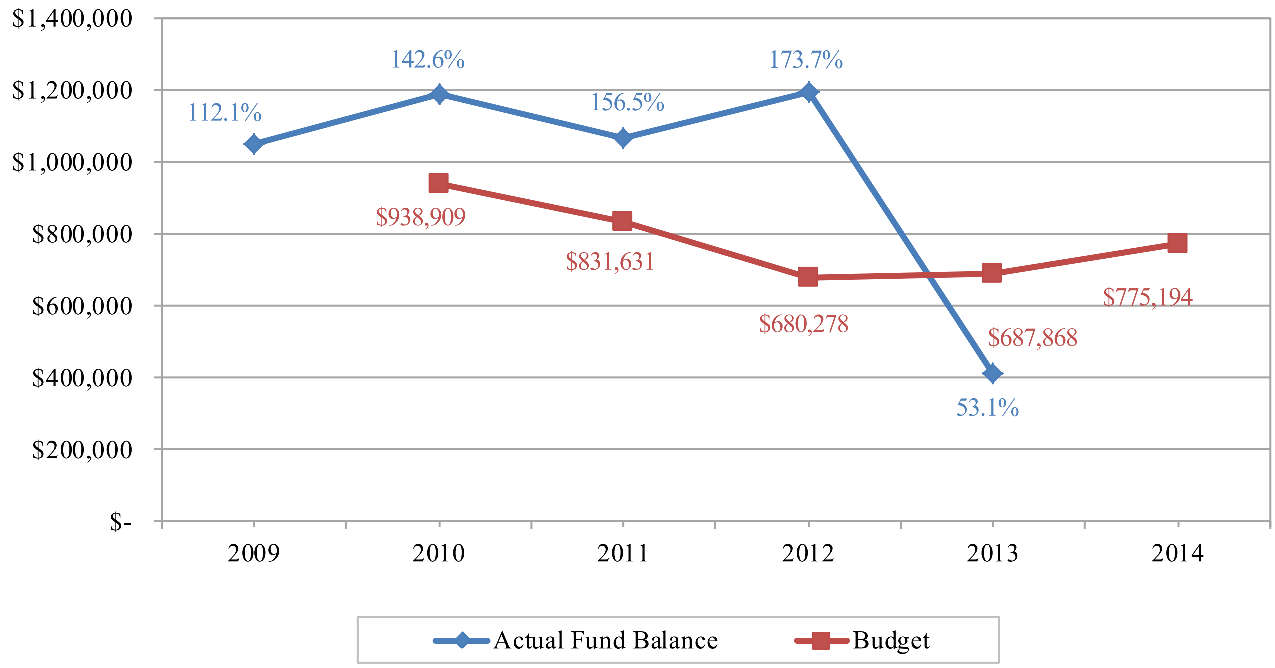
A table summarizing the General fund balance in relation to budget follows:

Year	Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2009	$ 1,052,064	2010	$ 938,909	112.1 %
2010	1,185,937	2011	831,631	142.6
2011	1,064,398	2012	680,278	156.5
2012	1,194,877	2013	687,868	173.7
2013	411,950	2014	775,194	53.1

Fund Balance as a Percent of Next Year's Budget



We have compiled a peer group average derived from information we have requested from the Office of the State Auditor and then compiled data for Cities of the 4th class which have populations below 2,500. In 2011 and 2012, the average General fund balance as a percentage of expenditures was 82 percent, and 86 percent, respectively.

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A summary of activity compared to budget follows:

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues	$ 687,868	$ 677,114	$ 869,316	$ 192,202
Expenditures	687,868	687,868	687,926	(58)
Excess (deficiency) of revenues over (under) expenditures	-	(10,754)	181,390	192,144
Other financing uses				
Transfers out	-	-	(964,317)	(964,317)
Net change in fund balances	-	(10,754)	(782,927)	(772,173)
Fund balances, January 1	1,194,877	1,194,877	1,194,877	-
Fund balances, December 31	$ 1,194,877	$ 1,184,123	$ 411,950	$ (772,173)

Key elements of the budget variance are as follows:

- Overall, revenues were more than budget. The largest variances were due to intergovernmental, as well as, licenses and permits.
    - Licenses and permits budget variance, of $49,532, related mostly to an increase in building permits, as well as, a new commercial permit. There was more development than anticipated.
    - Intergovernmental variance, of $66,736, related most due to the City received more local government aid than anticipated. The City received $266,365; however, only budgeted for $196,000.
- Overall, expenditures were more than budget by $58. Total current expenditures were over budget by $48,964 and total capital outlay expenditures were $58,035 under budget. Debt service expenditures were also $9,129 over budget.
- Transfers of excess fund balance were made to establish a permanent capital fund.

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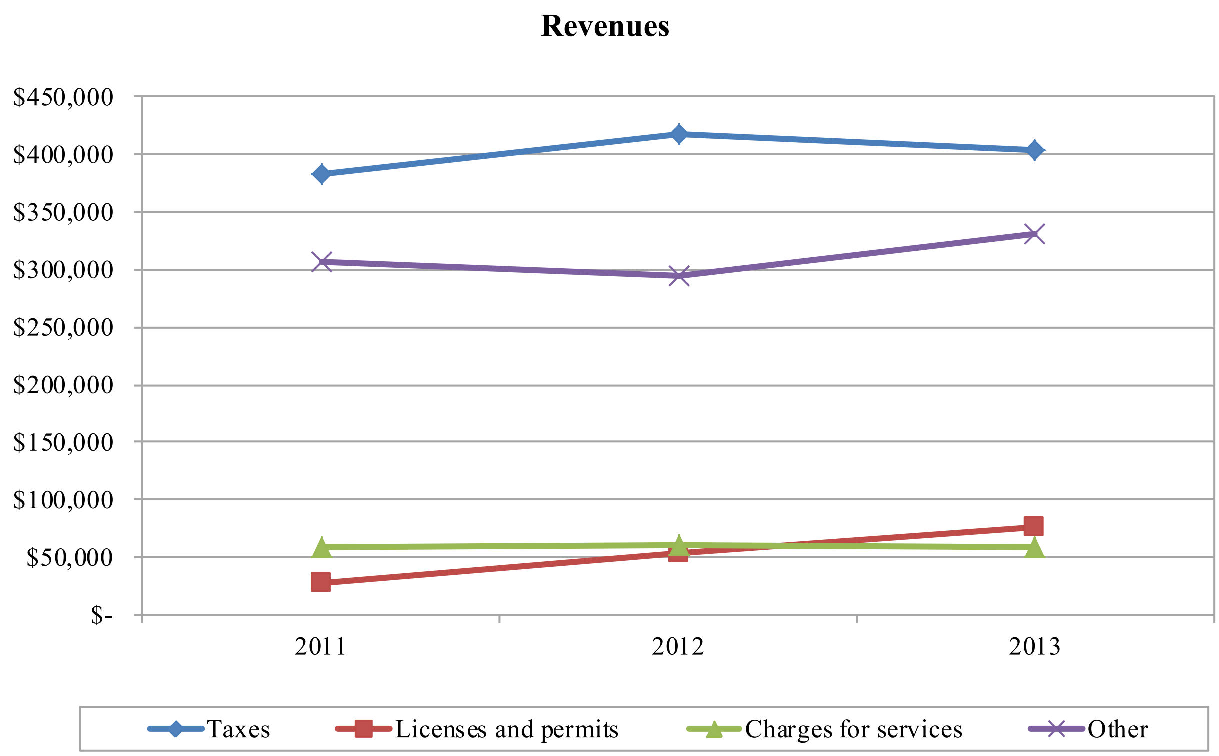
A more detailed comparison of General fund revenues with the prior year is as follows:

Source	2011	2012	2013	Percent of Total	Per Capita
Taxes	$ 382,383	$ 417,863	$ 404,291	46.5 %	$ 229
Licenses and permits	27,516	52,735	75,837	8.7	43
Intergovernmental	252,320	246,702	279,976	32.2	158
Charges for services	58,931	59,719	58,097	6.7	33
Fines and forfeitures	1,251	2,533	3,206	0.4	2
Interest on investments	6,081	4,580	6,379	0.7	4
Miscellaneous	46,367	41,092	41,530	4.8	24
Total revenues	$ 774,849	$ 825,224	$ 869,316	100.0 %	$ 493

Revenues for the most recent three years are graphically presented as follows:



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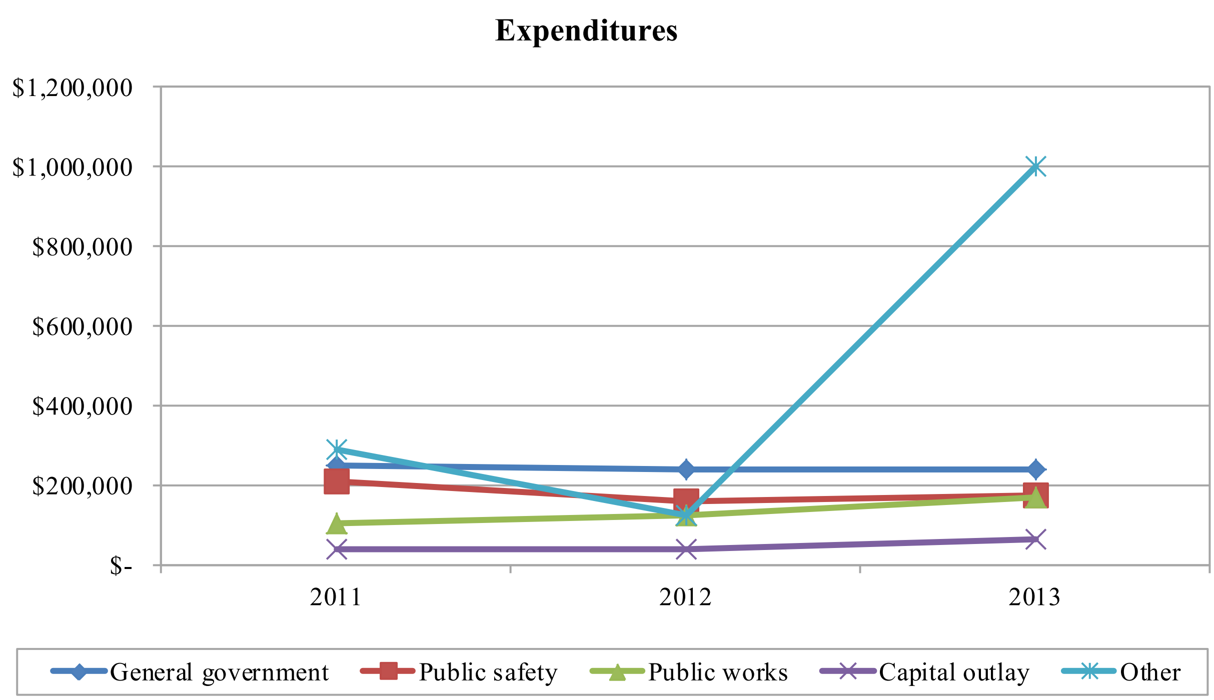
A more detailed comparison of General fund expenditures and transfers with the prior year is as follows:

Program	2011	2012	2013	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	$ 248,939	$ 239,763	$ 238,868	14.6 %	$ 135	$ 182
Public safety	210,373	163,216	173,439	10.5	98	212
Public works	106,030	124,736	172,961	10.5	98	158
Sanitation and recycling	4,137	6,589	3,321	0.2	2	-
Culture and recreation	17,540	19,882	24,577	1.5	14	70
Economic development	150	60	-	-	-	6
Total current	587,169	554,246	613,166	37.3	347	628
Capital outlay	40,221	38,880	65,631	4.0	37	69
Debt service	174,651	8,758	9,129	0.6	5	-
Transfers out	96,610	92,861	964,317	58.1	546	-
Total expenditures and transfers	$ 898,651	$ 694,745	$ 1,652,243	100.0 %	$ 935	$ 697

The peer group average is derived from information available on the website of the Office of the State Auditor.

Expenditures for the prior three years are graphically presented as follows:



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Special Revenue Funds

Special revenue funds include funds used to account for revenue derived from specific revenue sources that are restricted to expenditures for specified purpose. The fund balances of each fund in this group are as follows:

Fund	Fund Balances December 31, 2013	Fund Balances December 31, 2012	Increase (Decrease)
Nonmajor			
EDA	$ 15,325	$ 28,690	$ (13,365)
Fire Department Contributions	15,206	17,348	(2,142)
Old Schoolhouse	5,378	360	5,018
Total	$ 35,909	$ 46,398	$ (10,489)

Capital Projects Funds

The group of funds includes most of the development activities in the City. A summary of the status of each fund follows:

Fund	Fund Balances December 31, 2013	Fund Balances December 31, 2012	Increase (Decrease)
Major			
Capital Project/Equipment fund	$ 1,049,880	$ -	$ 1,049,880
Nonmajor			
Community Center	2,066	(5,206)	7,272
Highway 25 Improvement	-	(5,954)	5,954
70th Street Reserve	18,272	15,381	2,891
Street Improvements	108,006	108,697	(691)
Fire Truck	96,201	79,076	17,125
FEMA Grant	1,053	(1,130)	2,183
Park Improvements	181,802	140,329	41,473
Total	$ 1,457,280	$ 331,193	$ 1,126,087

After a project is complete, the City will need to close the fund by transferring any remaining balance to its related Debt Service fund or original funding source.

The Capital Project/Equipment fund was established in 2013 with a transfer of excess fund balance from the general fund.

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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

The group of funds includes debt paid by governmental funds in the City. A summary of the status of each fund follows:

	December 31, 2013			Final
Debt Description	Total Cash	Total Assets	Bonds Outstanding	Maturity Date
G.O. Improvement Utility Revenue 2007	$ 486,535	$ 716,476	$ 1,990,000	2/1/2023

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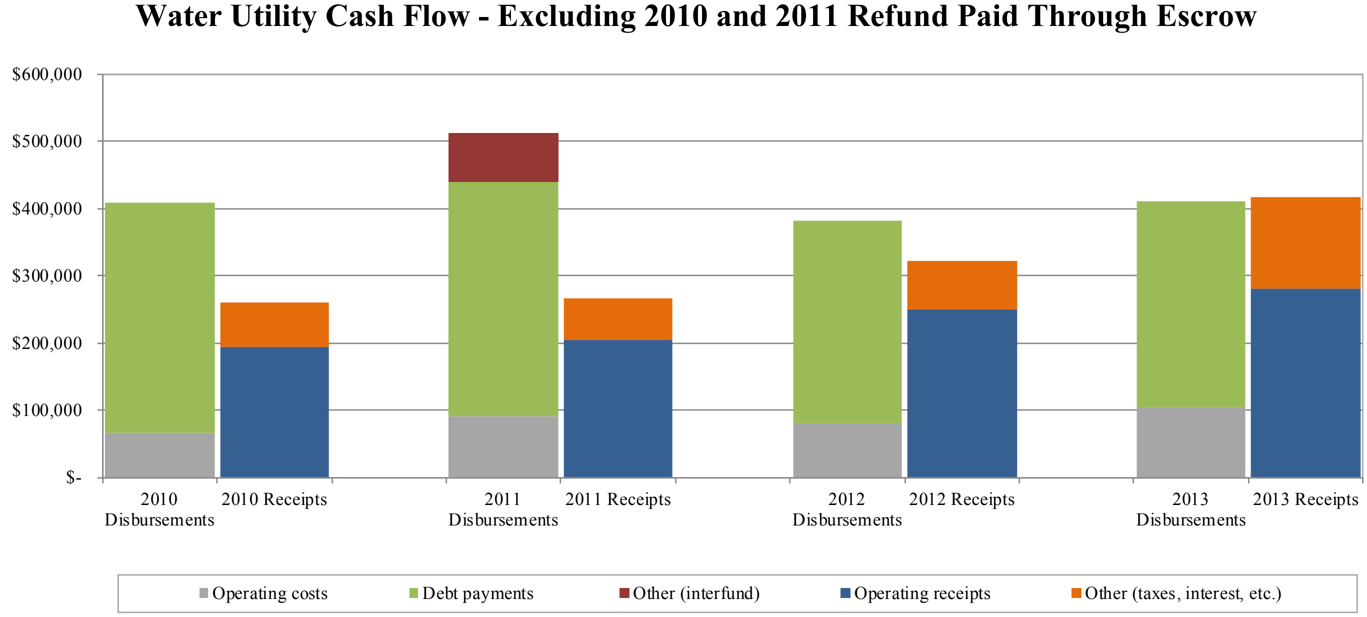
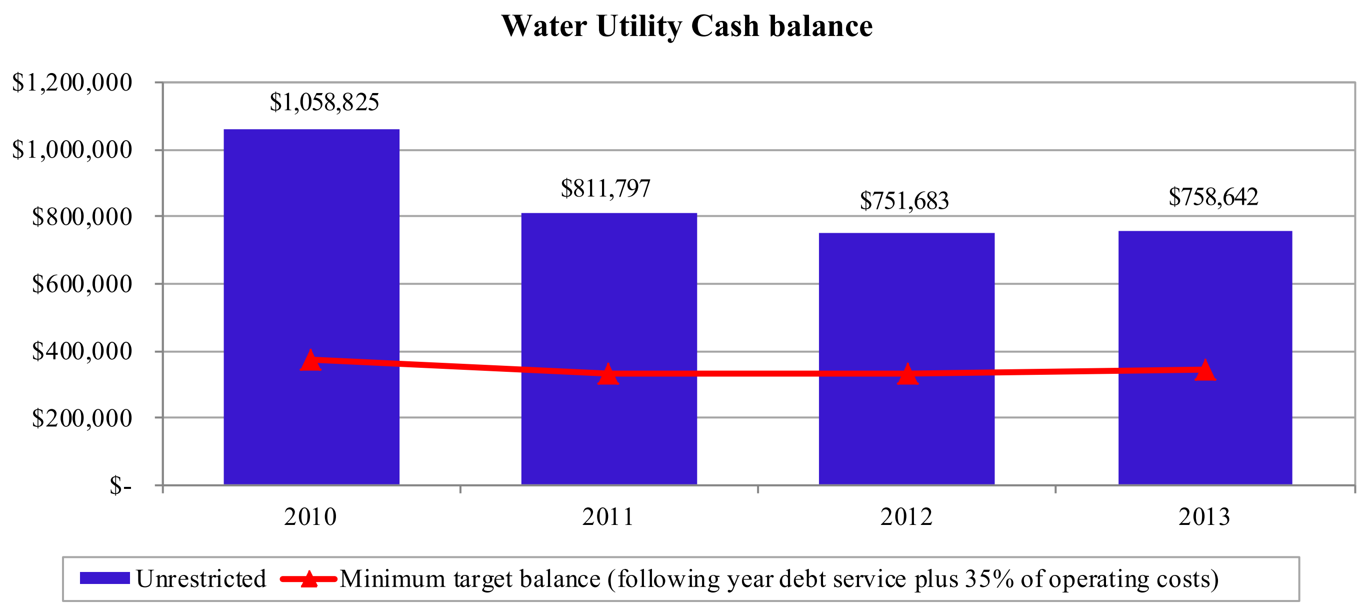
Enterprise Funds

The Water Utility, Sewer Utility and Storm Water Utility enterprise funds are accounted for in separate enterprise funds and a summary of each follows:

Water Utility Fund

The results of operations in terms of cash flow and the breakdown of the cash balances for the past four years are as follows:



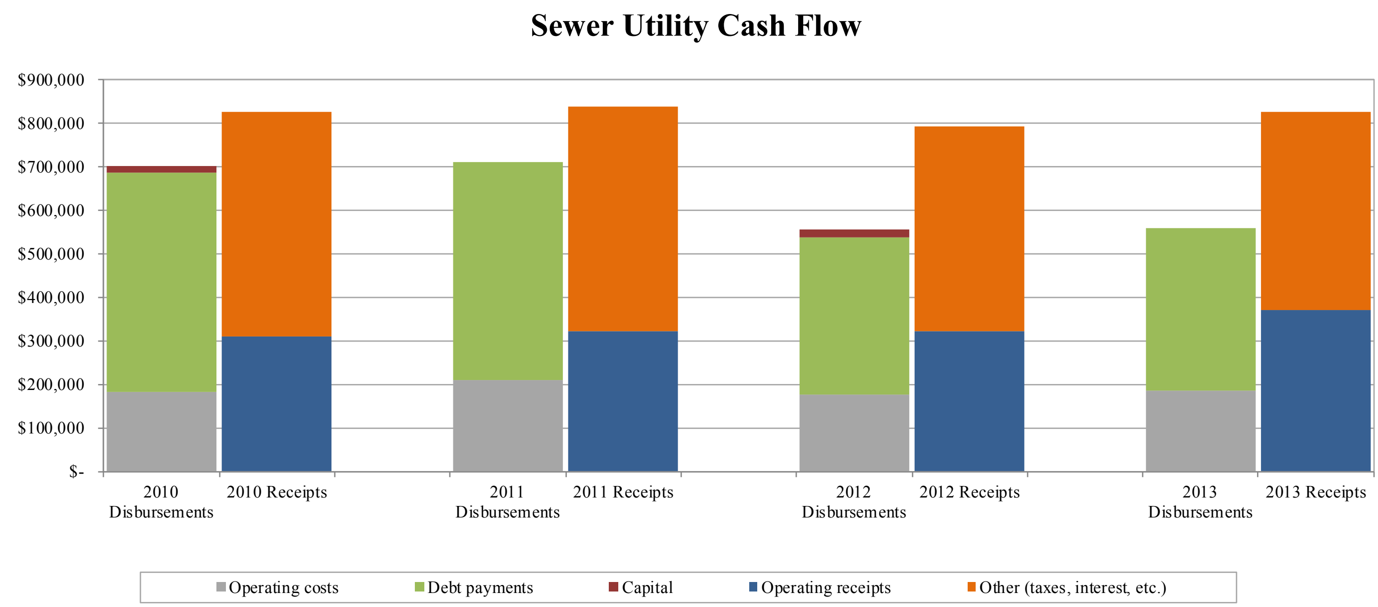


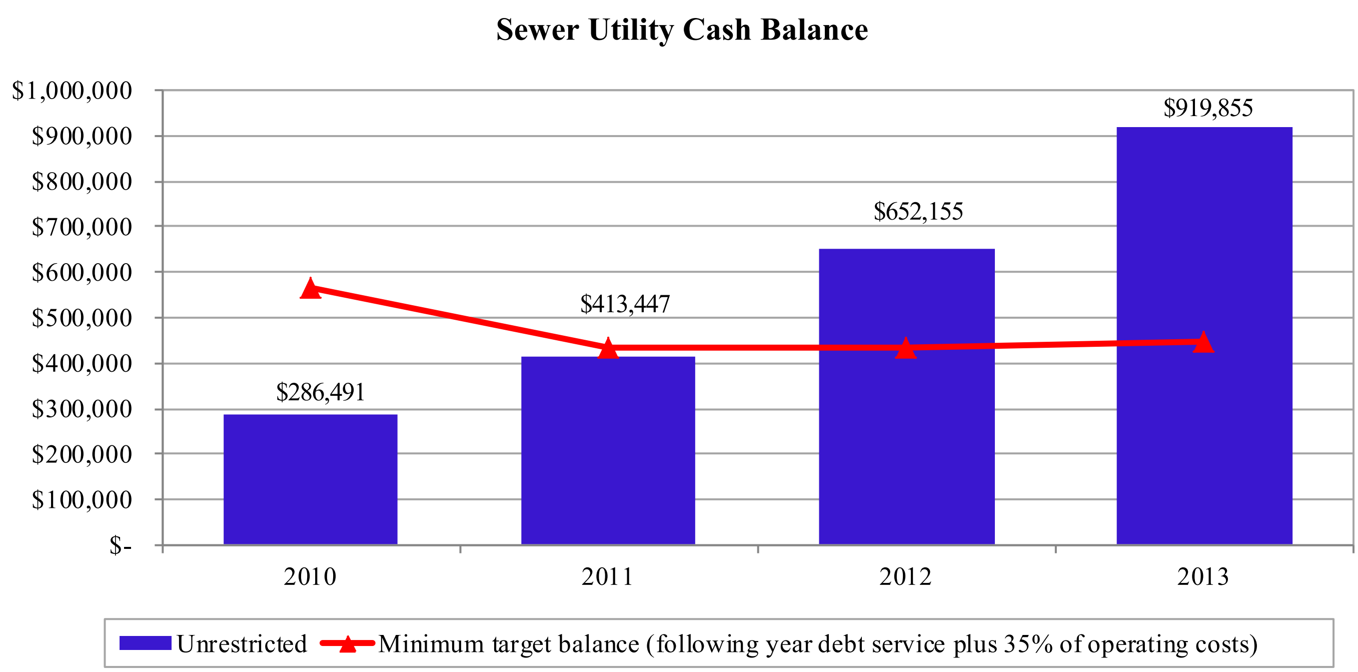
	2010	2011	2012	2013
Bonds payable	$ 4,869,500	$ 3,506,700	$ 3,304,550	$ 3,092,650

For the most part, the Water Utility funds operating receipts are sufficiently keeping pace with operating costs. The main disbursement for the Water Utility fund is debt payments. We recommend a cash flow projection be created to determine if rates are sufficient to cover operating costs, debt payments, repairs, and future replacement/expansion.

Sewer Utility Fund

The results of the operations in terms of cash flow and the breakdown of cash balances for the past four years are as follows:





	2010	2011	2012	2013
Bonds payable	$ 7,042,500	$ 3,798,300	$ 3,583,450	$ 3,349,350

The Sewer Utility fund operating receipts continue to sufficiently keep pace with operating expenses. The collection on connection fees and property taxes has sufficiently covered debt payments. In addition, current year cash balance has significantly succeeded minimum target balance. However, we do recommend a cash flow projection be created to determine if rates are sufficient to cover operating costs, repairs, and future replacement/expansion.

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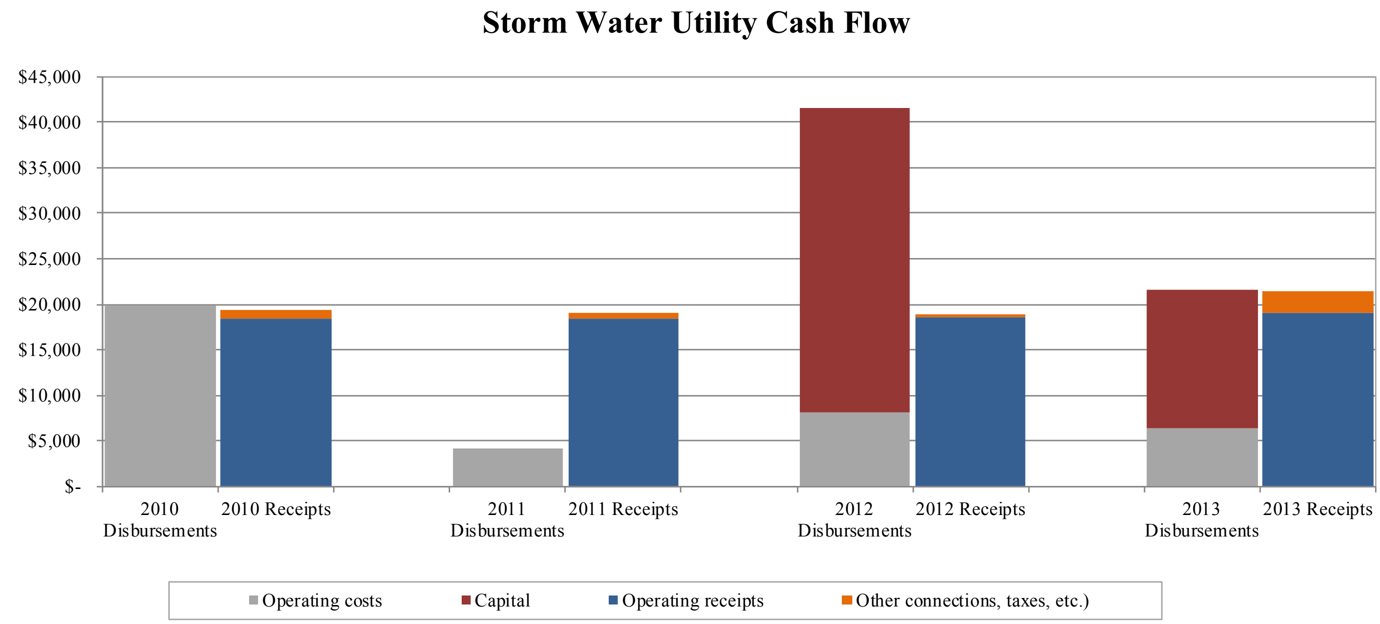
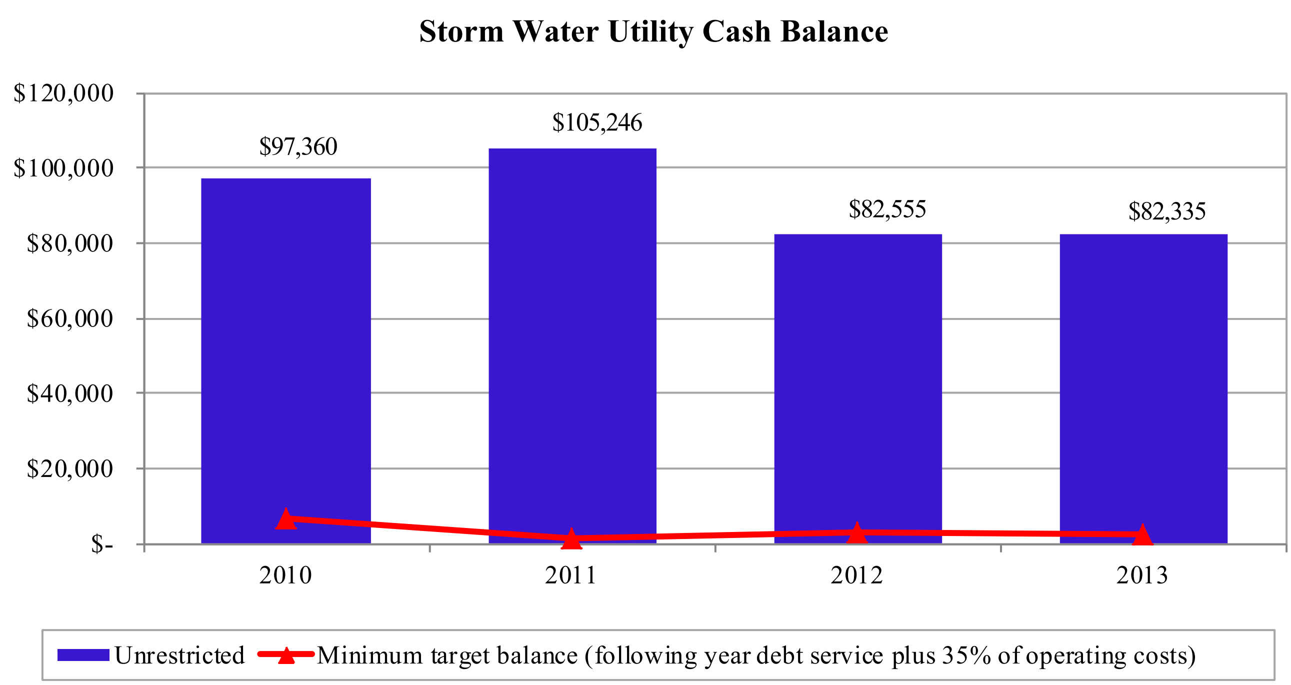
Storm Water Utility Fund

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:





The Storm Water Utility fund operating receipts continue to succeed in covering operating disbursements. However, in 2012 receipts were not able to sufficiently cover capital acquisition; which resulted in a decrease in cash. In 2013 receipts were slightly short of covering disbursements due to a capital acquisition; which resulted in a slight decrease cash. Overall, cash does continue to outreach the minimum target balance.

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 and compiled from the Office of the State Auditor. The peer group averages below are extracted from Cities of the 4th class which have populations less than 2,500. 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	54% *37%*	43% *32%*	42% *36%*	40% *N/A*
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	30% *102%*	48% *89%*	48% *90%*	53% *N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 5,554 *$ 3,125*	$ 5,405 *$ 3,647*	$ 5,176 *$ 3,207*	$ 4,800 *N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 544 *$ 407*	$ 536 *$ 636*	$ 507 *$ 444*	$ 520 *N/A*
Current expenditures per capita	Governmental fund current expenditures/population	Governmental funds	$ 339 *$ 804*	$ 355 *$ 891*	$ 324 *$ 849*	$ 357 *N/A*
Capital expenditures per capita	Governmental fund capital outlay/population	Governmental funds	$ 107 *$ 229*	$ 113 *$ 238*	$ 71 *$ 310*	$ 52 *N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	75% *61%*	72% *59%*	63% *57%*	60% *N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	83% *59%*	80% *62%*	76% *61%*	73% *N/A*

Represents the City of Mayer

Peer group average

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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 would indicate half of the assets are financed 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.

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: [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.

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Future Accounting Standard Changes - Continued

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.

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 Will Improve 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.

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This communication is intended solely for the information and use of management, City Council and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
February 27, 2014