

Management Letter

City of Mayer
Mayer, Minnesota

For the Year Ended
December 31, 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, 2014. 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 13, 2014. 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 of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described below as items 2014-001 and 2014-002 that we consider to be significant deficiencies.

2014-001 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.

2014-002 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 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 the number of 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. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2014. 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.

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 19, 2015.

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.

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, 2014.

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 \$4,140 from 2013. The fund balance of \$407,810 is 46.0 percent of the 2015 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. The City’s policy is to maintain a minimum unassigned fund balance of 50 percent of the next year’s budgeted expenditures for cash-flow timing needs.

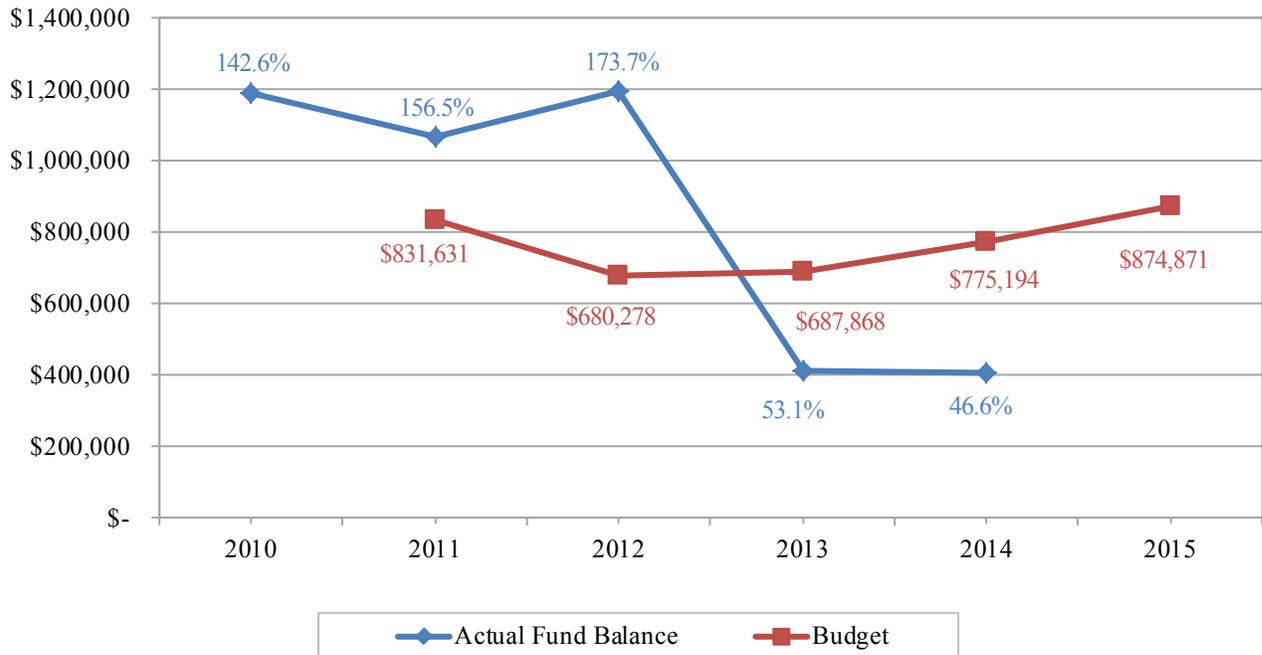
The purposes and benefits of a General fund - fund balance are as follows:

- 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.

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
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
2014	407,810	2015	874,871	46.6

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 2012 and 2013, the average General fund balance as a percentage of expenditures was 86 percent, and 86 percent, respectively.

A summary of activity compared to budget follows:

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues	\$ 775,194	\$ 775,194	\$ 915,833	\$ 140,639
Expenditures	<u>775,194</u>	<u>775,194</u>	<u>855,366</u>	<u>(80,172)</u>
Excess of revenues over expenditures	-	-	60,467	60,467
Other financing uses				
Transfers out	<u>-</u>	<u>-</u>	<u>(64,607)</u>	<u>(64,607)</u>
Net change in fund balances	-	-	(4,140)	(4,140)
Fund balances, January 1	<u>411,950</u>	<u>411,950</u>	<u>411,950</u>	<u>-</u>
Fund balances, December 31	<u>\$ 411,950</u>	<u>\$ 411,950</u>	<u>\$ 407,810</u>	<u>\$ (4,140)</u>

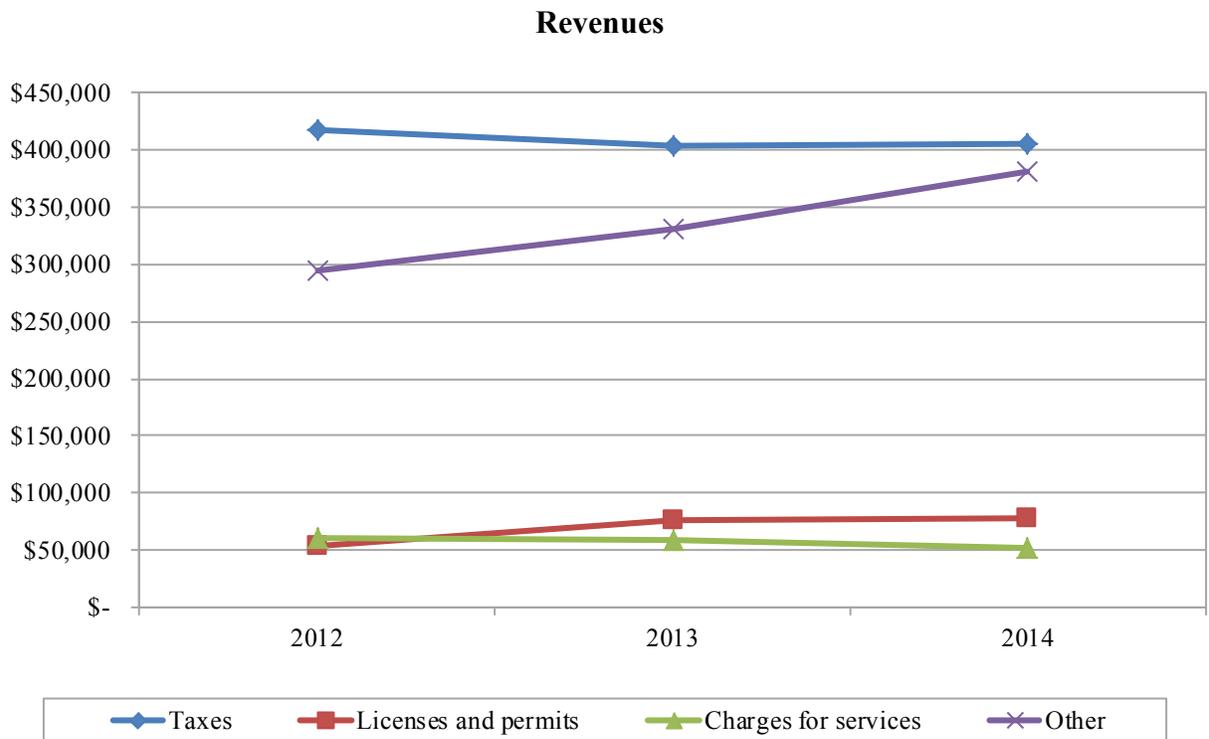
Key elements of the budget variance are as follows:

- Overall, revenues were more than budget. The largest variances were due to general property taxes, licenses and permits, as well as, miscellaneous.
 - General property taxes variance of \$40,270 was due to the collection of delinquent taxes.
 - Licenses and permits budget variance of \$49,211 relates to an increase in building permits. There was more development than anticipated.
 - Miscellaneous variance, of \$36,872, related mostly to the conduit debt fee received from Groves Academy. The City did not budget for this amount.
- Overall, expenditures were more than budget by \$80,172. Total current expenditures were under budget by \$7,054 and total capital outlay expenditures were \$84,526 over budget due to costs associated with the roundabout project.

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

Source	2012	2013	2014	Percent of Total	Per Capita
Taxes	\$ 417,863	\$ 404,291	\$ 405,430	44.3 %	\$ 223
Licenses and permits	52,735	75,837	77,052	8.4	42
Intergovernmental	246,702	279,976	316,464	34.6	174
Charges for services	59,719	58,097	52,379	5.7	29
Fines and forfeitures	2,533	3,206	3,192	0.3	2
Interest on investments	4,580	6,379	2,791	0.3	2
Miscellaneous	41,092	41,530	58,525	6.4	32
Total revenues	\$ 825,224	\$ 869,316	\$ 915,833	100.0 %	\$ 504

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



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

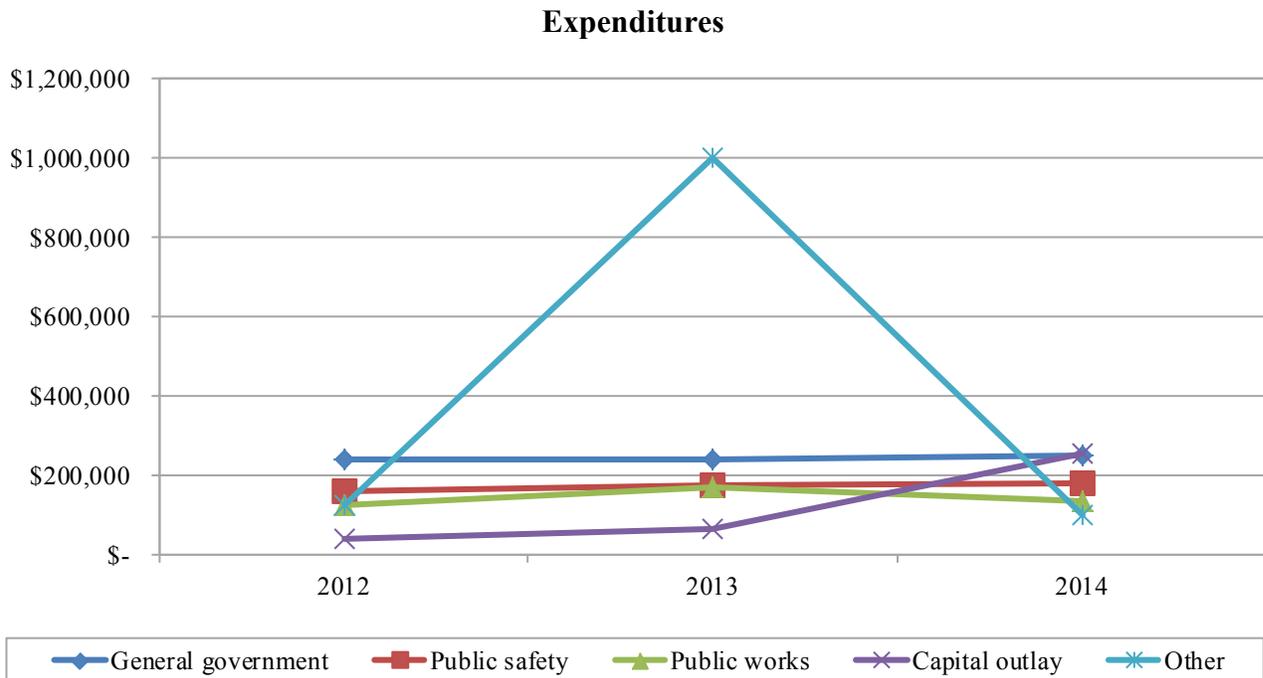
- Intergovernmental revenue increased due to local government aid increasing roughly \$25,000 from 2013. Miscellaneous revenue also increased due to the conduit debt fee which was received from Groves Academy.

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

Program	2012	2013	2014	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	\$ 239,763	\$ 238,868	\$ 248,861	27.2 %	\$ 137	\$ 190
Public safety	163,216	173,439	179,253	19.5	99	210
Public works	124,736	171,421	135,386	14.7	75	161
Sanitation and recycling	6,589	3,321	3,598	0.4	2	-
Culture and recreation	19,882	24,577	19,303	2.1	11	67
Economic development	60	-	931	-	1	10
Total current	554,246	611,626	587,332	63.9	325	638
Capital outlay	38,880	67,171	257,026	27.9	141	68
Debt service	8,758	9,129	11,008	1.2	6	-
Transfers out	92,861	964,317	64,607	7.0	36	-
Total expenditures and transfers	\$ 694,745	\$ 1,652,243	\$ 919,973	100.0 %	\$ 508	\$ 706

The above chart compares the amount the City spends per capita, in comparison to a peer group. The peer group average is compiled from 2013 information we have requested from the Minnesota Office of the State Auditor for Cities of the 4th class which have populations below 2,500.

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



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

- The transfer out in 2013 was to create the Capital Project/Equipment fund for future capital purchases. The significant increase in capital outlay relates to project costs associated with the roundabout project.

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,		Increase (Decrease)
	2014	2013	
Nonmajor			
EDA	\$ 12,819	\$ 15,325	\$ (2,506)
Fire Department Contributions	21,739	15,206	6,533
Old Schoolhouse	5,386	5,378	8
Total	\$ 39,944	\$ 35,909	\$ 4,035

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,		Increase (Decrease)
	2014	2013	
Major			
Capital Project/Equipment fund	\$ 1,074,140	\$ 1,049,880	\$ 24,260
Nonmajor			
Community Center	11,331	2,066	9,265
70th Street Reserve	26,236	18,272	7,964
Street Improvements	13,156	108,006	(94,850)
Fire Truck	140,942	96,201	44,741
FEMA Grant	1,053	1,053	-
Park Improvements	186,208	181,802	4,406
Total	\$ 1,453,066	\$ 1,457,280	\$ (4,214)

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 a fund the council deems appropriate.

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:

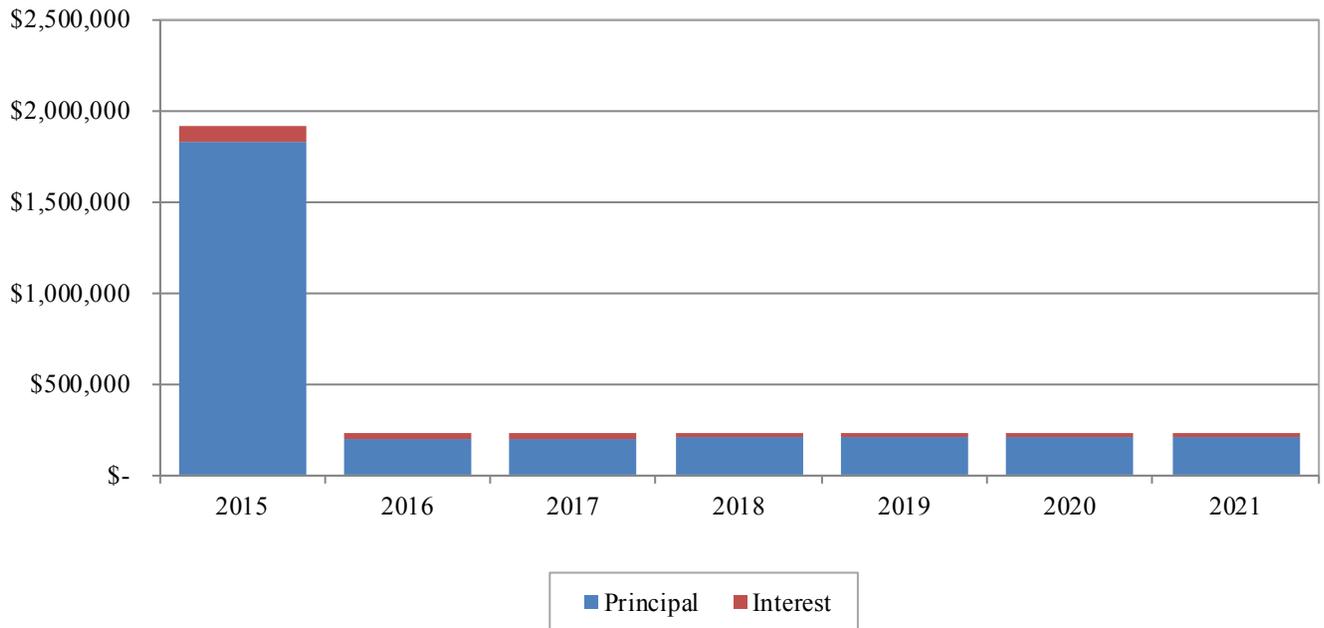
- Property taxes - Primarily for general City benefit projects such as parks and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.
- Tax increments - Pledged exclusively for tax increment/economic development districts.
- Capitalized interest 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. As of December 31, 2014, there is restricted cash held with fiscal agent for the refunding of the 2007 issue of \$1,681,572 to pay off that issue in 2015. A summary of the status of each fund follows:

Debt Description	December 31, 2014			Final Maturity Date
	Total Cash	Total Assets	Bonds Outstanding	
G.O. Improvement Utility Revenue 2014	\$ 501,193	\$ 2,338,678	\$ 3,505,000	2/1/2023



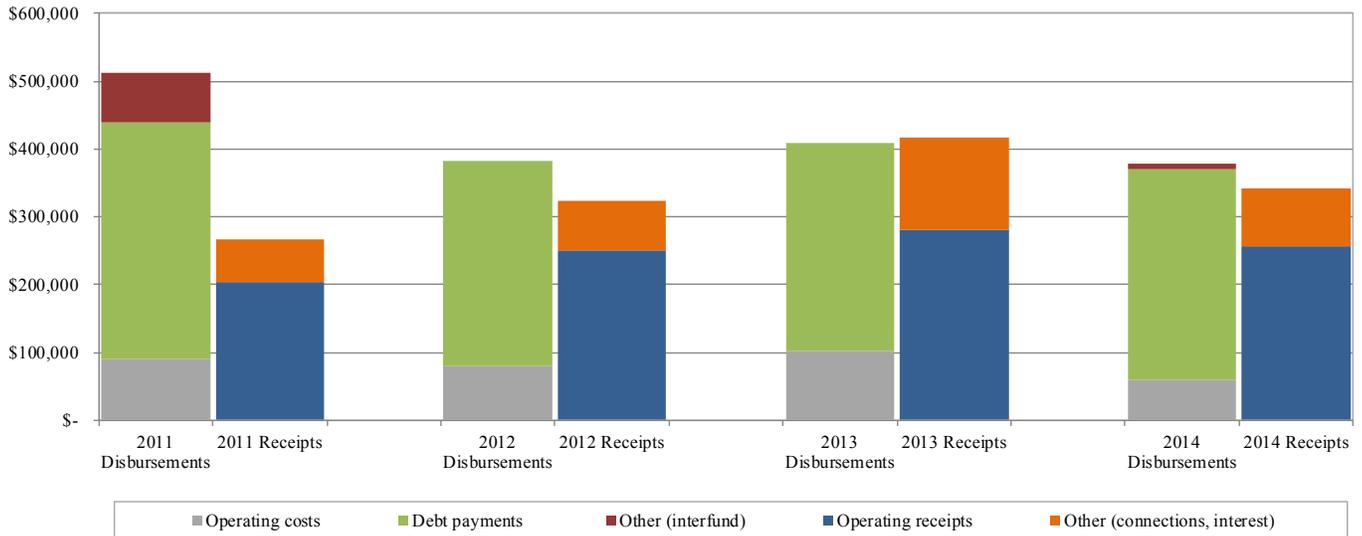
Enterprise Funds

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

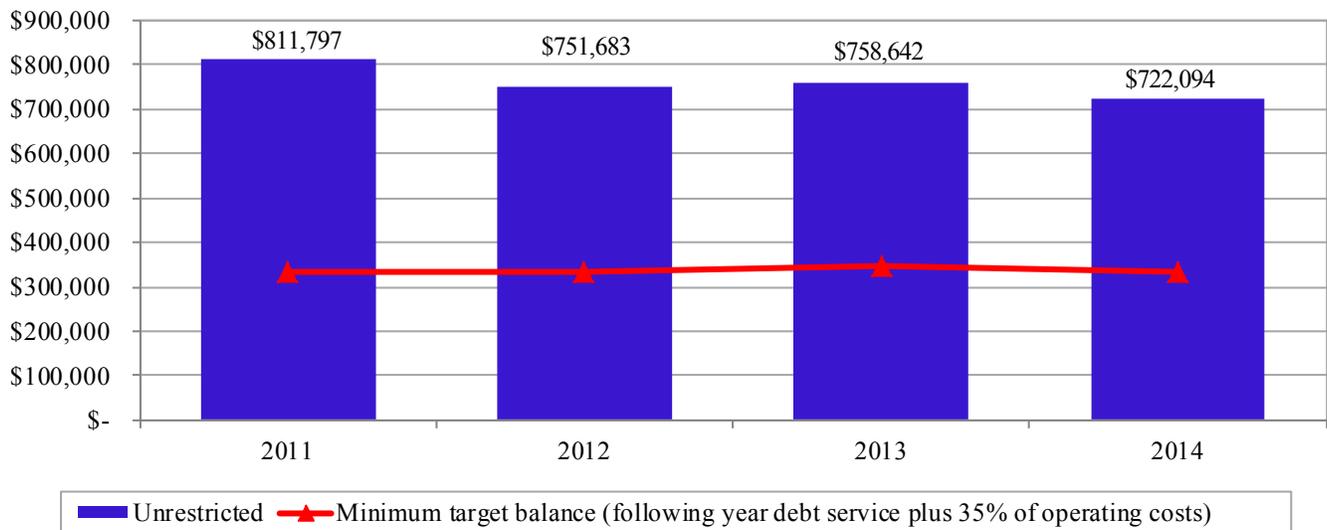
Water Utility Fund

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

Water Utility Cash Flow - Excluding 2011 Refunding Paid Through Escrow



Water Utility Cash balance



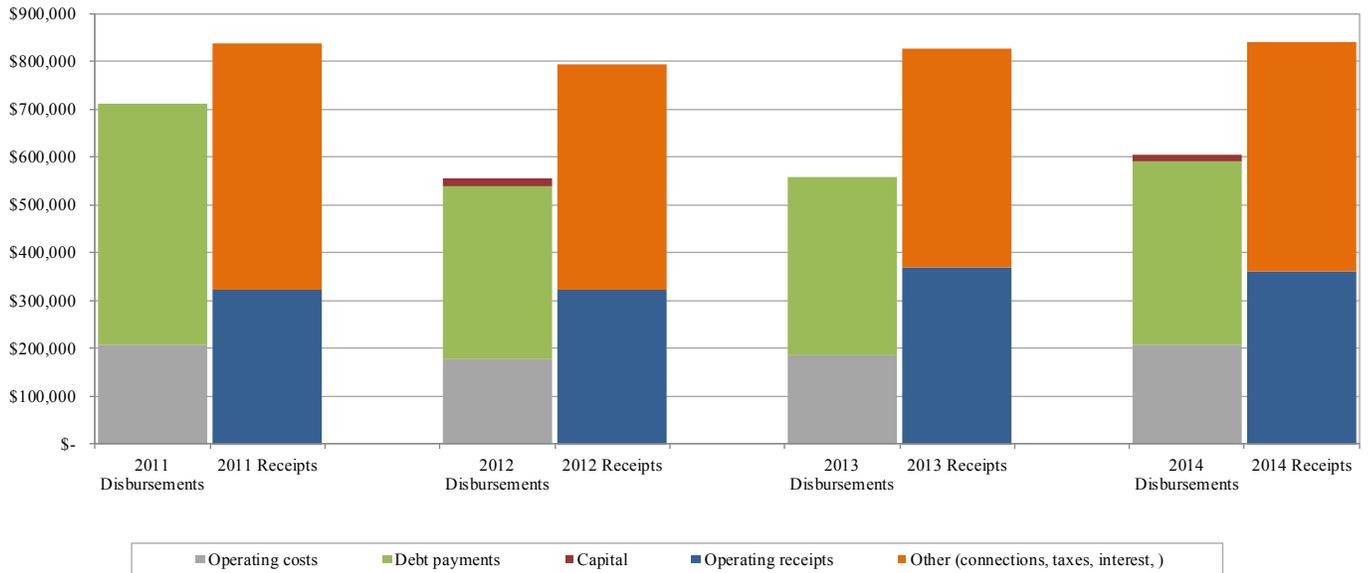
	2011	2012	2013	2014
Bonds payable	<u>\$ 3,506,700</u>	<u>\$ 3,304,550</u>	<u>\$ 3,092,650</u>	<u>\$ 2,871,000</u>
Accumulated Depreciation	<u>\$ 1,020,784</u>	<u>\$ 1,214,228</u>	<u>\$ 1,406,077</u>	<u>\$ 1,598,057</u>

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 completed to determine if rates are sufficient to cover operating costs, debt payments, repairs, and future replacement or expansion of the system.

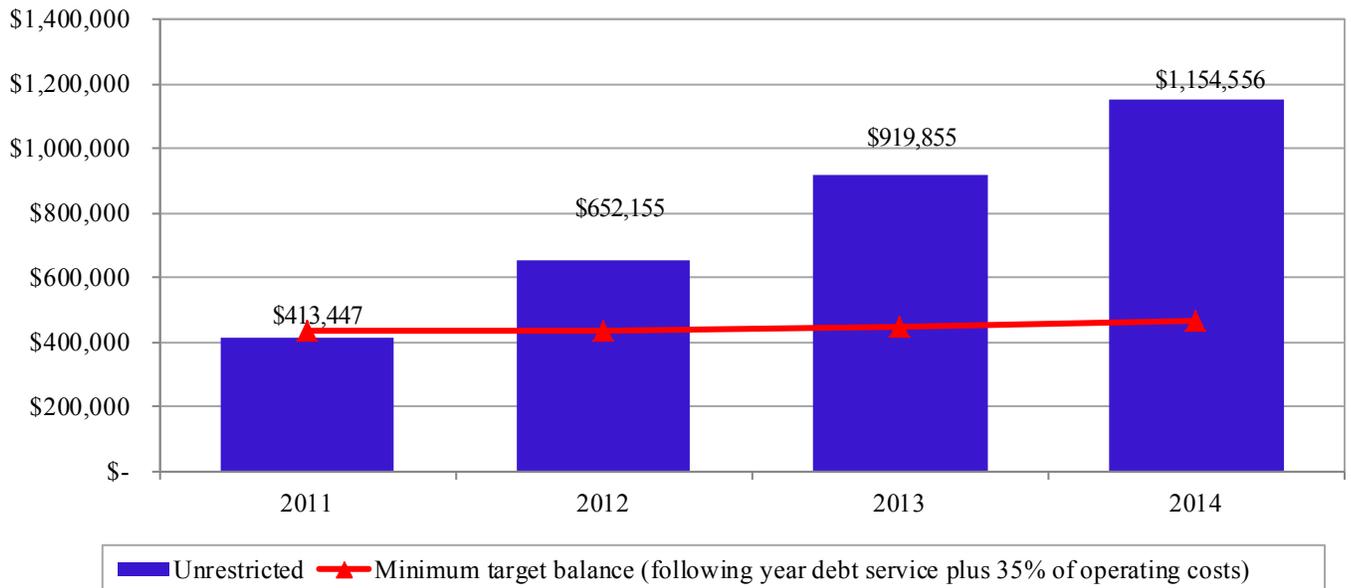
Sewer Utility Fund

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

Sewer Utility Cash Flow



Sewer Utility Cash Balance



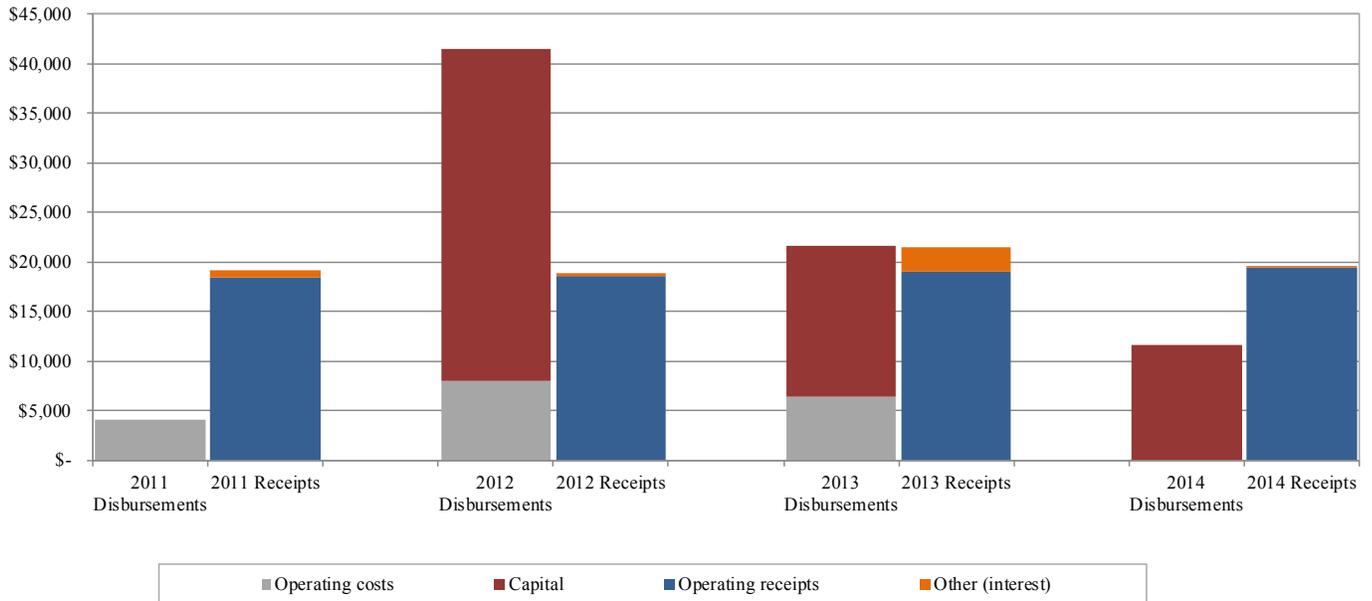
	2011	2012	2013	2014
Bonds payable	<u>\$ 3,798,300</u>	<u>\$ 3,583,450</u>	<u>\$ 3,349,350</u>	<u>\$ 3,096,000</u>
Accumulated Depreciation	<u>\$ 1,897,112</u>	<u>\$ 2,174,946</u>	<u>\$ 2,451,472</u>	<u>\$ 2,728,118</u>

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 exceeded the 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 or expansion of the system.

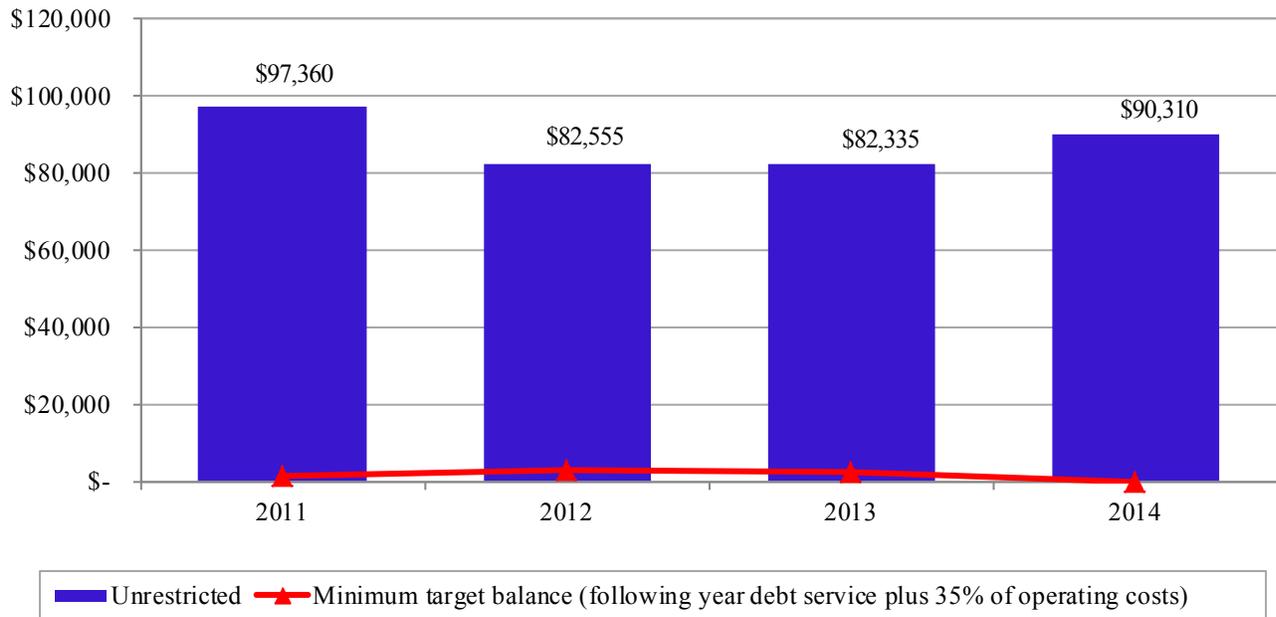
Storm Water Utility Fund

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:

Storm Water Utility Cash Flow



Storm Water Utility Cash Balance



	2011	2012	2013	2014
Accumulated Depreciation	\$ 59,420	\$ 73,656	\$ 87,893	\$ 102,130

The Storm Water Utility fund operating receipts continue to exceed operating disbursements. In 2013, receipts were slightly short of covering disbursements due to a capital acquisition; which resulted in a slight decrease cash. However in 2014, cash increased from interest throughout the year. Overall, cash is in excess of 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	2014
Debt to assets	Total liabilities/total assets	Government-wide	54% 37%	43% 32%	42% 36%	40% 36%	42% N/A
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	30% 102%	48% 89%	48% 90%	53% 99%	51% N/A
Debt per capita	Bonded debt/population	Government-wide	\$ 5,554 \$ 3,125	\$ 5,405 \$ 3,647	\$ 5,176 \$ 3,207	\$ 4,800 \$ 3,309	\$ 4,305 N/A
Taxes per capita	Tax revenues/population	Government-wide	\$ 544 \$ 407	\$ 536 \$ 636	\$ 507 \$ 444	\$ 520 \$ 466	\$ 511 N/A
Current expenditures per capita	Governmental fund current expenditures/population	Governmental funds	\$ 339 \$ 804	\$ 355 \$ 891	\$ 324 \$ 849	\$ 357 \$ 805	\$ 324 N/A
Capital expenditures per capita	Governmental fund capital outlay/population	Governmental funds	\$ 107 \$ 229	\$ 113 \$ 238	\$ 71 \$ 310	\$ 52 \$ 293	\$ 208 N/A
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	75% 61%	72% 59%	63% 57%	60% 57%	57% N/A
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	83% 59%	80% 62%	76% 61%	73% 59%	69% N/A

Represents the City of Mayer

Peer group average

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. 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.

GASB Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measure Date - an Amendment of GASB Statement No. 68

Summary

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Future Accounting Standard Changes - Continued

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

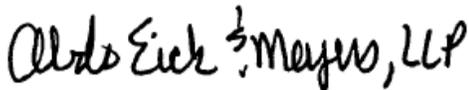
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Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be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



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Minneapolis, Minnesota
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