Management Letter

City of Mayer

Mayer, Minnesota

For the Year Ended
December 31, 2017

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

People + Process. Going Beyond the Numbers

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

February 21, 2018

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, 2017. 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 October 31, 2017. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 However, as described in the accompanying Schedule of Findings and Responses we identified a certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiencies described below as findings 2017-001 through 2017-007 to be material weaknesses.

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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2017-001 **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. 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 the City 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

2017-002 **Limited Segregation of Duties**

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

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.

Also, a well-designed system of internal control has documentation of significant transaction cycles. Documentation is especially important in the event of staff turnover.

Cause: As a result of the limited number of staff, the City is not able to completely segregate all accounting functions. All cycles have the same person performing some of the authorization, custody, and recording functions.

Effect: The existence of this limited segregation of duties increases the risk of fraud and error. There were a significant number of coding and posting errors in the 2017 records where only one person was involved in the transaction.

Recommendation: While we recognize that the number of staff is not large enough to eliminate these deficiencies, we believe the risk can be reduced with better monitoring.

Management Response:

The City has evaluated the accounting procedures and has determined that the job duties are assigned to the staff most capable. This does not always allow for complete segregation. The City will continue to review its processes and make changes where possible.

2017-003 **Control of Check Signing Stamp**

Condition: During our audit, we reviewed procedures over check signing and staff indicated that the Mayor's stamp is controlled and used by a staff person who has custody, record keeping and reconciliation duties.

Criteria: If a signing stamp is to be used the control of the stamp needs to be controlled by someone who independent of record keeping and reconciliation duties.

Cause: It appears this condition occurs because staff has not recently completed a review of internal processes and evaluated their effectiveness.

Effect: The existence of this condition increases the risk of fraud and error because there is not a second or independent review of transactions

Recommendation: We recommend the processes be reviewed and the stamp be controlled by someone not involved with creating and posting transactions and reconciling accounts.

Management Response:

The City agrees with the finding and recommendation and will implement it.

2017-004 **Material Audit Adjustments**

Condition: During our audit, there were a number of transactions incorrectly coded that were material and resulted in the need for audit adjustments.

Criteria: The City should have coding and review procedures that ensure transactions are coded to the correct account and period initially.

Cause: It appears this condition occurs because of staff transition and lack of systems and repeatable processes to ensure repeatable transactions are consistently coded. This is especially evident in the coding of bond and tax revenue transactions.

Effect: The condition results in inaccurate internal information that could be unreliable for decision making. The audit form cannot serve as a compensation control over this deficiency.

Recommendation: We recommend the firm processes be reviewed and that coding systems be established and followed.

Management Response:

The City agrees with the finding and recommendation and will implement it.

2017-005 **Developer Escrow Account Deficit Balance**

Condition: The City has a developer escrow accounts for the Coldwater Crossing and Hidden Creek development. The City incurred over $73,000 of expense on behalf of the developers during 2017 and into 2018 that was not billed to the developer.

Criteria: The City maintain a deposit to cover the planning, legal, engineering, and any other City cost that a developer incurs. If a deposit isn't sufficient the City should bill these costs timely to the developer.

Cause: Reconciliations were not completed during the year mainly due to staff turnover.

Effect: The effect of allowing deficit balances means that the shortfall needs to be funded with other resources and there is greater risk to an orderly accounts receivable process. A longer bill cycle makes collection more difficult.

Recommendation: We recommend that the City enforce a policy and implement a monitoring procedure that ensures deposits are received in advance of any activity and that any negative account be billed timely. This also include reconciling and billing balances monthly.

Management Response:

The City will reconcile the balance monthly, maintain deposits when possible and bill timely for any shortfall.

2017-006 **Authorized Signors**

Condition: During our audit, we noted that the former City Administrator is still the signor for the 4M investment account and the current City Administrator is not.

Criteria: Bank signers should only be current employees.

Cause: The City did not consider all the required transition procedures upon transition of the City Administrator position.

Effect: The City is has a risk that a former employee has access to their banking. Additionally, the Bank should not allow a transaction to be authorized by someone who is not a signor.

Recommendation: We recommend the City correct the signature cards at 4M and create a checklist to be used in any future transition.

Management Response:

Management understands the risk and has taken steps to ensure that this will not happen again.

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 two instances of noncompliance (findings 2017-007 and 2017-008) that are required to be reported under *Government Auditing Standards* or Minnesota statutes. They are described below.

2017-007 **PERA Remittances**

Condition: During our audit, we noted that the City has not made any deposits to PERA of employee withholdings.

Criteria: PERA requires the amounts withheld from employees checks to be remitted within in 14 days of when the employee is paid.

Cause: It appears the City did not follow up on this issue when converting payroll to ADP. Ultimately it is the City's responsibility to ensure timely remittances.

Effect: As a result the City is not in compliance with the requirement of PERA and could be subject to penalty.

Recommendation: We recommend that City remit the delinquent payments and establish procedures to complete this task in the future.

Management Response:

The City agrees with the finding and recommendation and has implemented.

2017-008	**Time Period for Payment of Claims**
Condition:	Our testing of the City's compliance with Minnesota statutes for payment of claims indicated one instance of non-compliance.
Criteria:	Minnesota statute section 471.425 requires that the City pay bills within 35 days from receipt. If the invoice is not paid within the 35 days, interest at 1.5 percent per month is to be added to amount due.
Cause:	We noted an invoice that was paid after the 35 day period.
Effect:	This transaction is not in compliance with state statue since it was paid after the 35 day period and no interest was remitted.
Recommendation:	We recommend that the City review the 2017 Minnesota Legal Compliance Audit Guide for Claims and Disbursements (http://www.osa.state.mn.us/default.aspx?page=20180208.007) with staff responsible for approving and paying bills and ensure the City's processes consider the requirements of the guide. Implementing this recommendation will not result in any additional cost to the city.

Management Response:

Management will schedule a meeting to review the guide and document new processes to ensure compliance.

Difficulties Encountered in Performing the Audit

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

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 were not changed during the year ended December 31, 2017. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and 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.
- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases and form of annuity payment upon retirement.
- The City's liability for other post-employment benefits was estimated to be zero primarily based on the assumption that the expected retirement age of 65.
- 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.

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, except as noted in item 2017-003, 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 21, 2018.

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 Matters

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, the Schedule of Employer's Share of the Net Pension Liability, Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios, and the Schedules of Employer's Contributions), which is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information (combining and individual fund financial statements and schedules), which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

We were not engaged to report on the introductory which accompany the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

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.

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, 2017.

General Fund

The General fund is used to account for resources traditionally associated with government, which are not required legally or by sound principal management to be accounted for in another fund. The General fund balance increased $86,975 from 2016. The fund balance of $852,150 is 79.7 percent of the 2018 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. We recommend that the City consider adopting a policy where funds in excess of the fund balance target at year end be identified and that Council approve a transfer to a permanent capital fund. This will allow the City to maintain an adequate general fund working capital reserve and build reserves for future capital projects.

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.

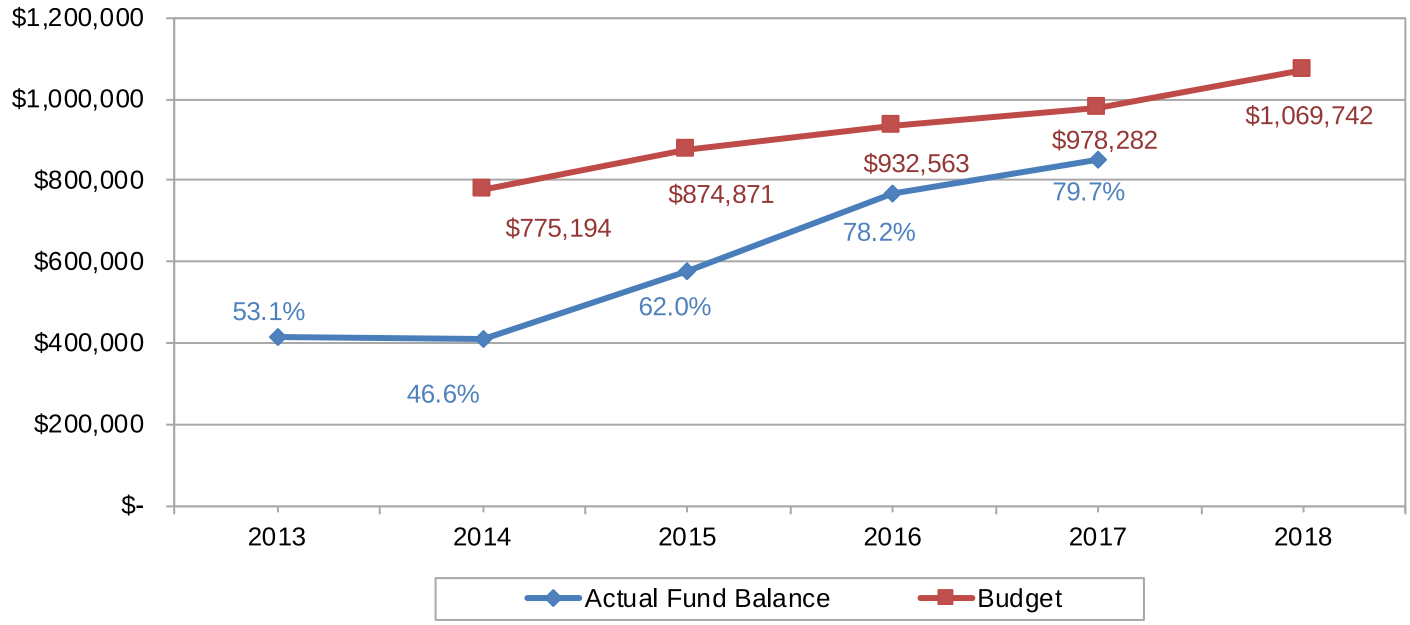
- Expenditures not anticipated at the time the annual budget was adopted may need immediate City Council action. These would include capital outlay replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.

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
2013	$ 411,950	2014	$ 775,194	53.1 %
2014	407,810	2015	874,871	46.6
2015	577,902	2016	932,563	62.0
2016	765,175	2017	978,282	78.2
2017	852,150	2018	1,069,742	79.7

Fund Balance as a Percent of Next Year's Budget



A summary of activity compared to budget follows:

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues	$ 989,155	$ 989,155	$ 1,227,688	$ 238,533
Expenditures	978,282	978,282	863,721	114,561
Excess of Revenues Over Expenditures	10,873	10,873	363,967	353,094
Other Financing Uses				
Transfers out	-	-	(276,992)	(276,992)
Net Change in Fund Balances	10,873	10,873	86,975	76,102
Fund Balances, January 1	765,175	765,175	765,175	-
Fund Balances, December 31	$ 776,048	$ 776,048	$ 852,150	$ 76,102

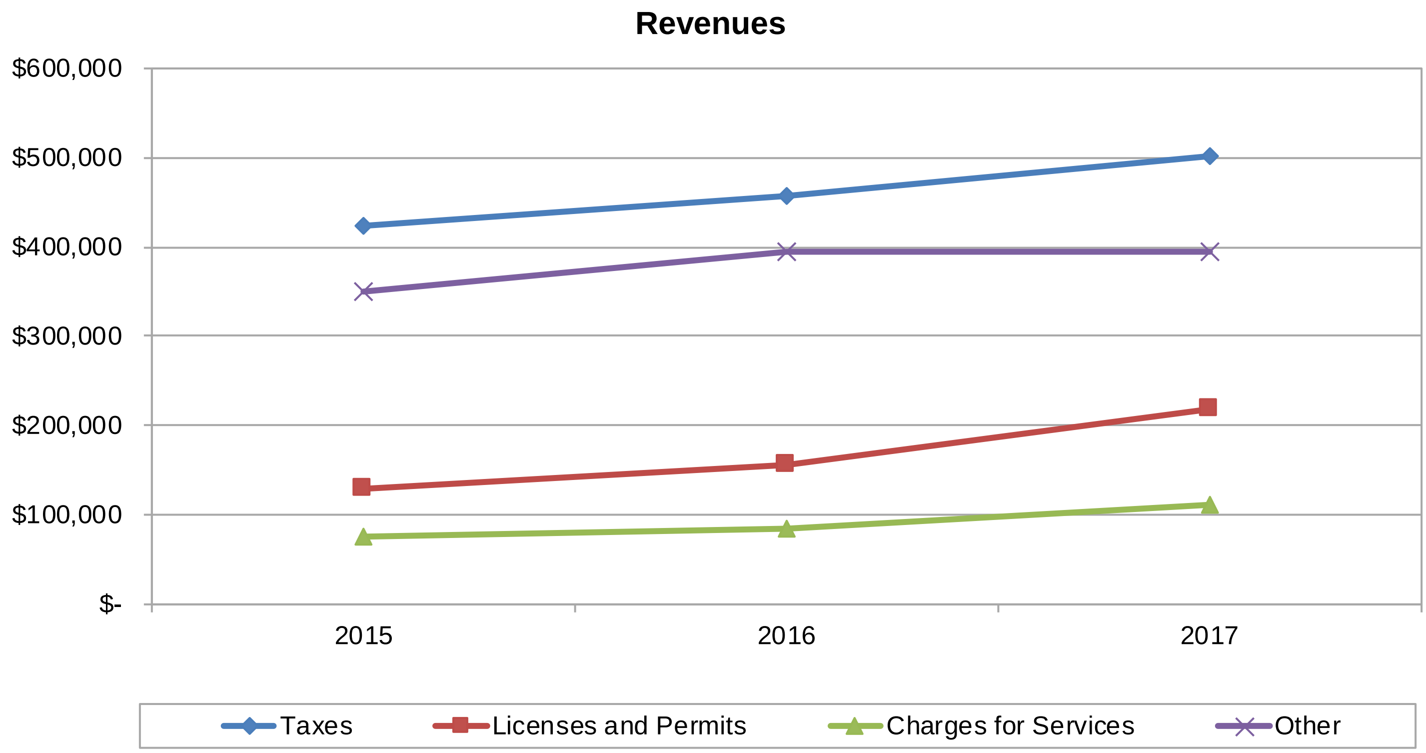
The City's General fund budget was not amended during the year and called for an increase of $10,873 in fund balance. Total revenues were over budget by $238,533 and expenditures were $114,561 less than anticipated. Some of the significant variances can be briefly summarized as follows:

- Licenses and permits were over budget by $194,112 due to higher than expected building permit revenue and budgeting conservatively.
- Expenditures were under budget in all functions except general government, public works, and sanitation. The most significant variances were in capital outlay, which was $143,455 under budget.

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

Source	2015	2016	2017	Percent of Total	Per Capita
Taxes	$ 424,519	$ 457,726	$ 502,734	40.9 %	$ 252
Licenses and Permits	130,251	155,206	218,807	17.8	110
Intergovernmental	308,841	310,017	352,180	28.7	177
Charges for Services	75,561	83,893	110,887	9.0	56
Fines and Forfeitures	4,197	5,903	3,809	0.3	2
Interest on Investments	4,711	4,737	3,462	0.3	2
Miscellaneous	33,071	73,633	35,809	3.0	18
Total Revenues	$ 981,151	$ 1,091,115	$ 1,227,688	100.0 %	$ 617

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



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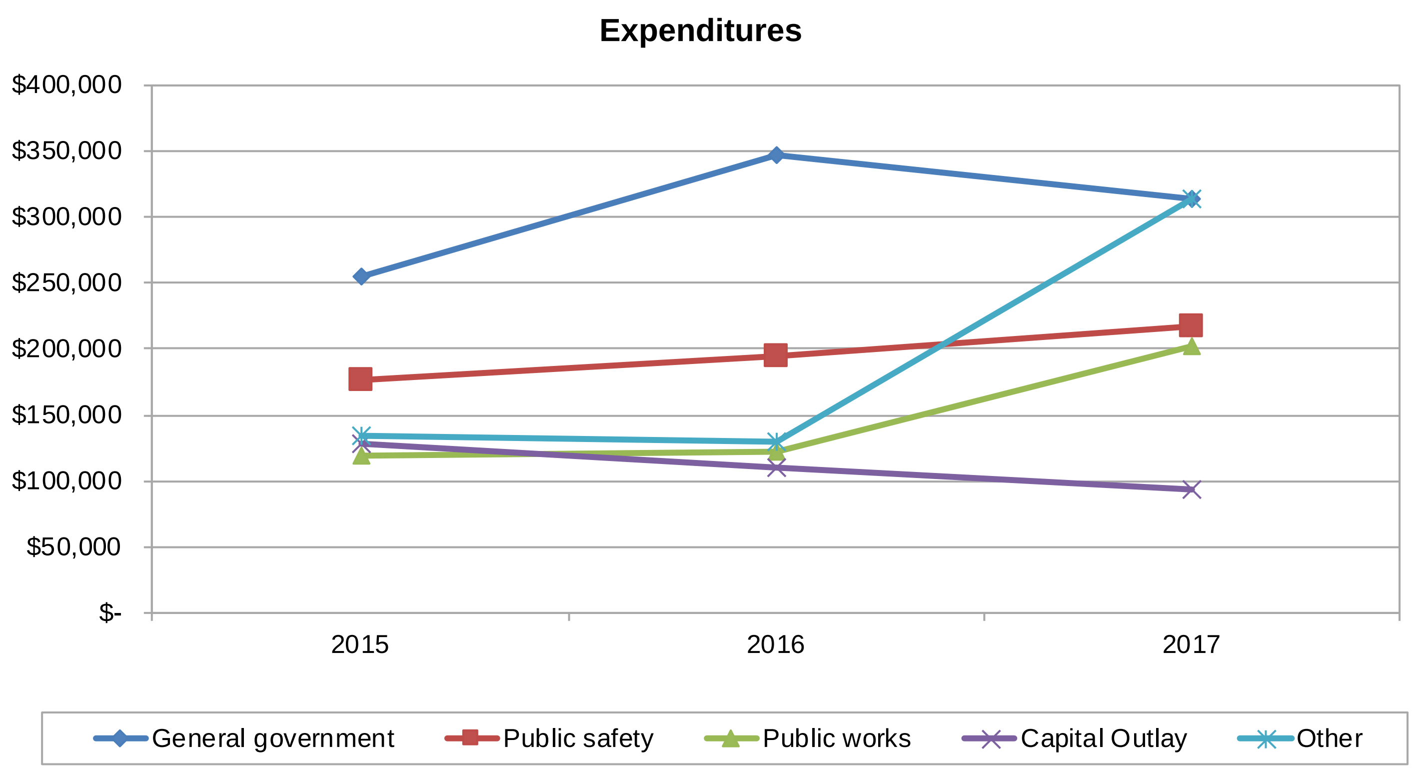
A more detailed comparison of General fund expenditures and transfers with the two prior years is as follows:

Program	2015	2016	2017	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	$ 254,282	$ 347,068	$ 313,606	27.6 %	$ 157	$ 205
Public safety	175,949	193,782	217,767	19.1	109	210
Public works	119,609	122,586	202,309	17.7	101	165
Sanitation	3,110	2,778	4,114	0.4	2	-
Culture and recreation	31,374	21,245	23,221	2.0	12	75
Economic development	1,010	2,125	847	-	-	12
Total Current	585,334	689,584	761,864	66.8	381	667
Capital Outlay	127,931	110,417	93,549	8.2	47	93
Debt Service	9,208	8,308	8,308	0.7	4	-
Transfers Out	88,836	95,533	276,992	24.3	139	-
Total Expenditures and Transfers	$ 811,309	$ 903,842	$ 1,140,713	100.0 %	$ 571	$ 760

The above chart compares the amount the City spends per capita, in comparison to a peer group. The peer group average is compiled from 2017 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:



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, 2017	Fund Balances December 31, 2016	Increase (Decrease)
Nonmajor			
EDA	$ 19,730	$ 19,644	$ 86
Fire Department Contributions	27,365	24,221	3,144
Old Schoolhouse	5,445	5,421	24
Total	$ 52,540	$ 49,286	$ 3,254

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, 2017	Fund Balances December 31, 2016	Increase (Decrease)
Major			
Capital Project/Equipment fund	$ 826,335	$ 478,101	$ 348,234
Nonmajor			
Fire Truck	151,021	76,075	74,946
Community Center	24,195	10,418	13,777
70th Street Reserve	43,010	42,734	276
Public Works	68,489	19,384	49,105
FEMA Grant	(9,888)	(9,845)	(43)
Park Improvements	311,574	283,985	27,589
Total	$ 1,414,736	$ 900,852	$ 513,884

The FEMA Grant fund has carried a deficit for a number of years. We would recommend closing that fund by making a transfer from another fund with sufficient resources. This should be done by council resolution.

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:

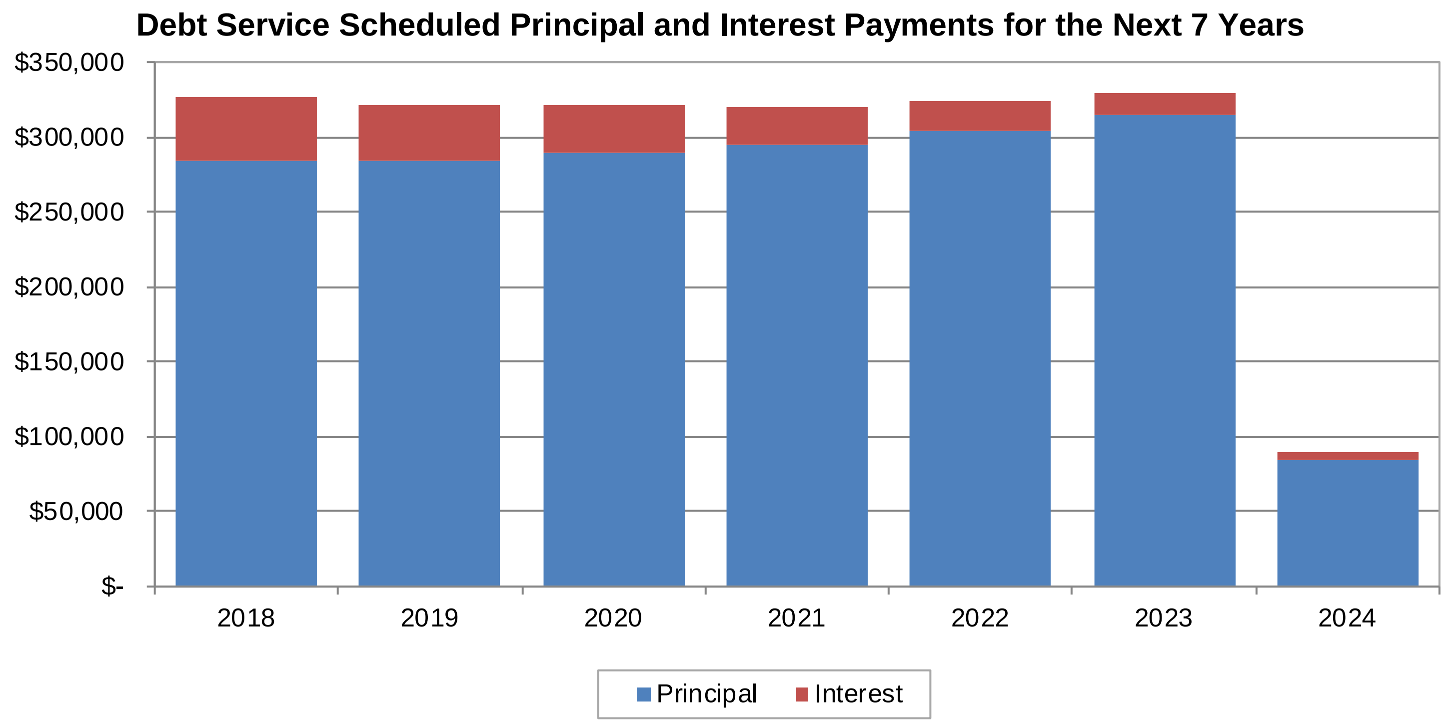
- Property taxes - Primarily for general City benefit projects such as parks and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.
- Tax increments - Pledged exclusively for tax increment/economic development districts.
- Capitalized interest 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:

Debt Description	December 31, 2017 Total Cash	Total Assets	Bonds Outstanding	Final Maturity Date
G.O. Improvement Utility Revenue 2014	$ 441,767	$ 461,803	$ 1,285,000	2/1/2023
G.O. Improvement 2015	112,099	443,546	710,000	2/1/2026
Total	$ 553,866	$ 905,349	$ 1,995,000	

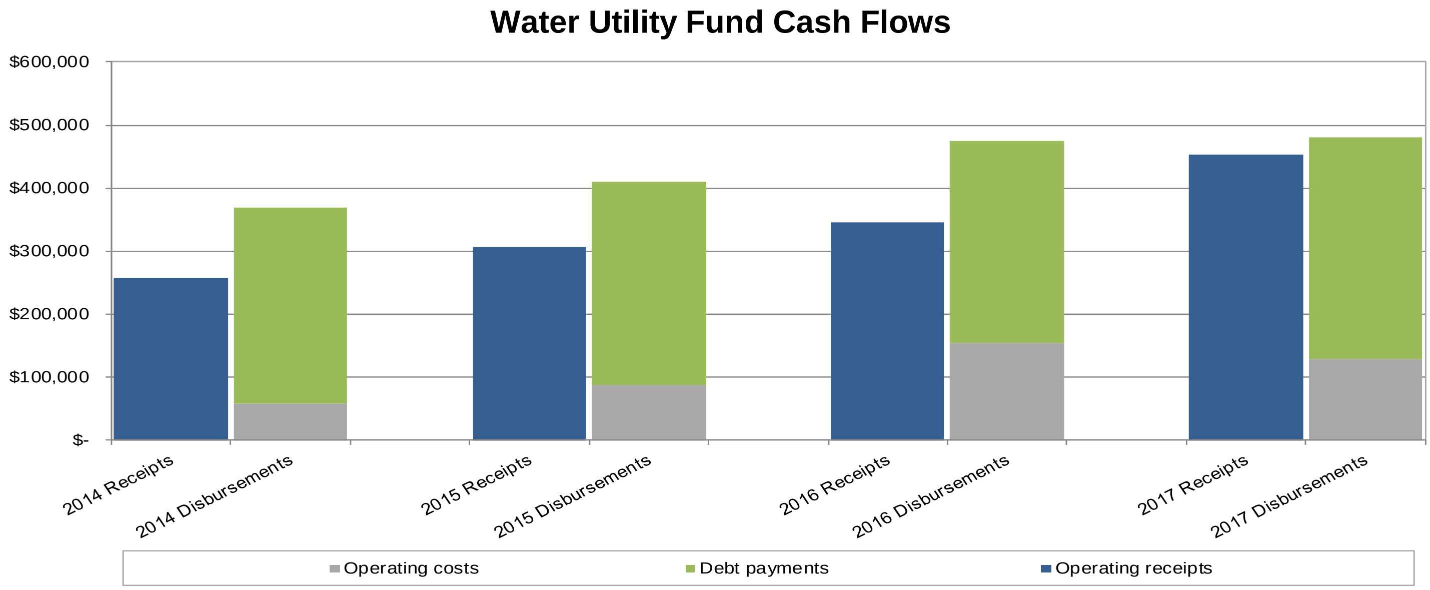


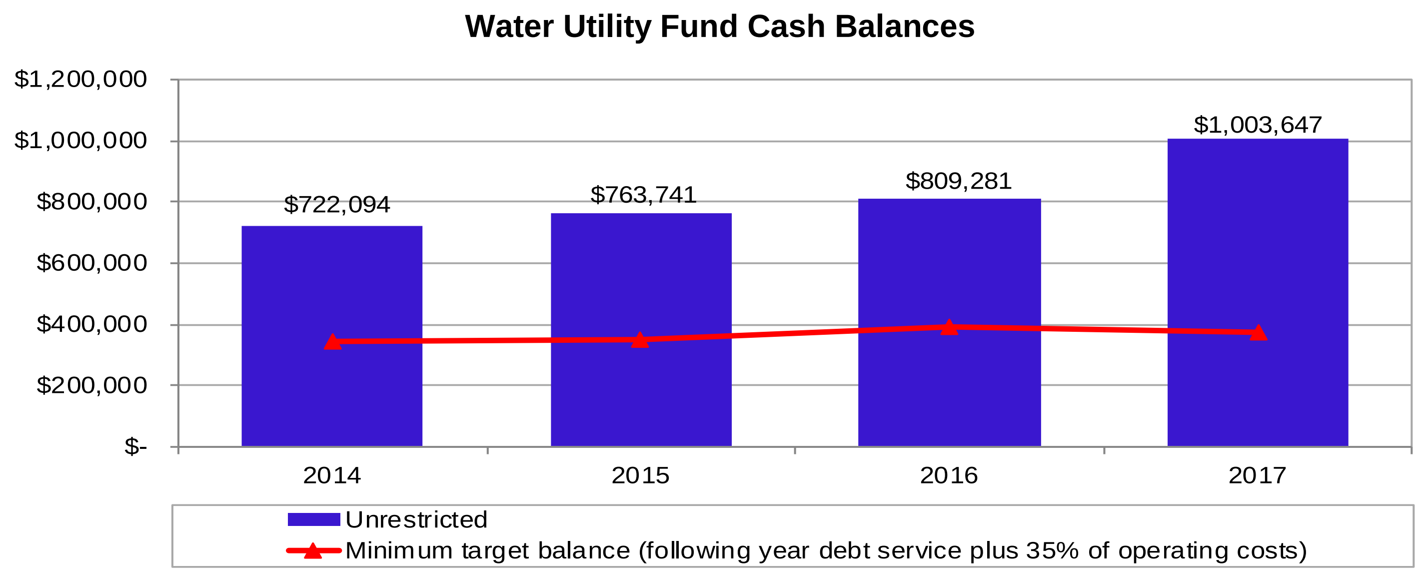
Enterprise Funds

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 flows and the breakdown of the cash balances for the past four years are as follows:





	2014	2015	2016	2017
Bonds Payable	$ 2,871,000	$ 2,829,600	$ 2,590,150	$ 2,340,006
Accumulated Depreciation	$ 1,598,057	$ 1,781,538	$ 1,980,384	$ 2,179,229

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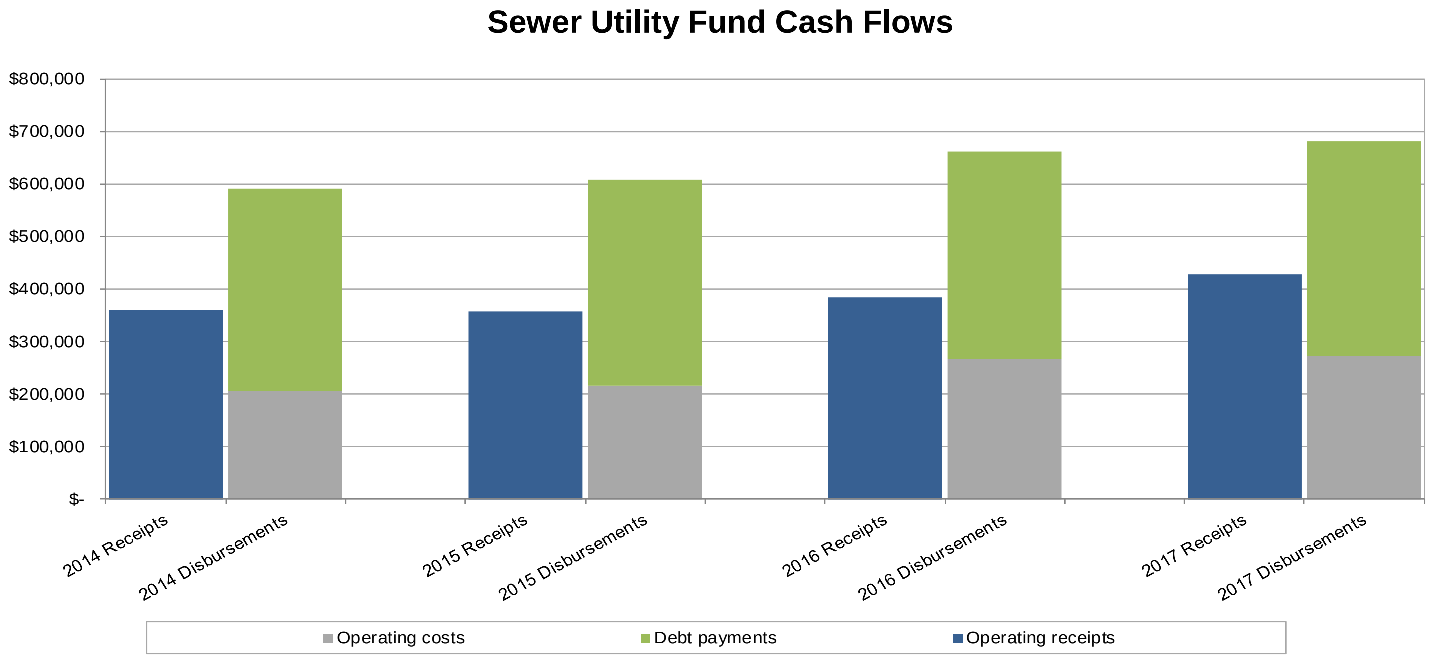
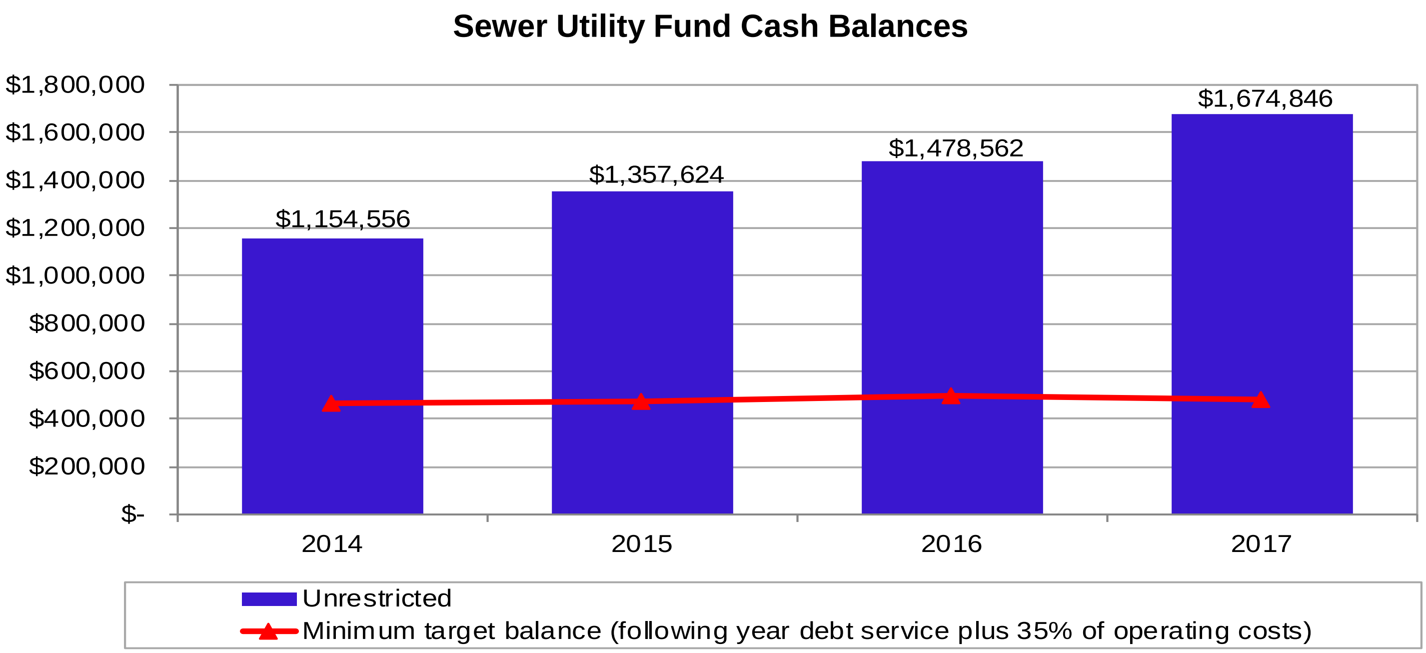
Sewer Utility Fund

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

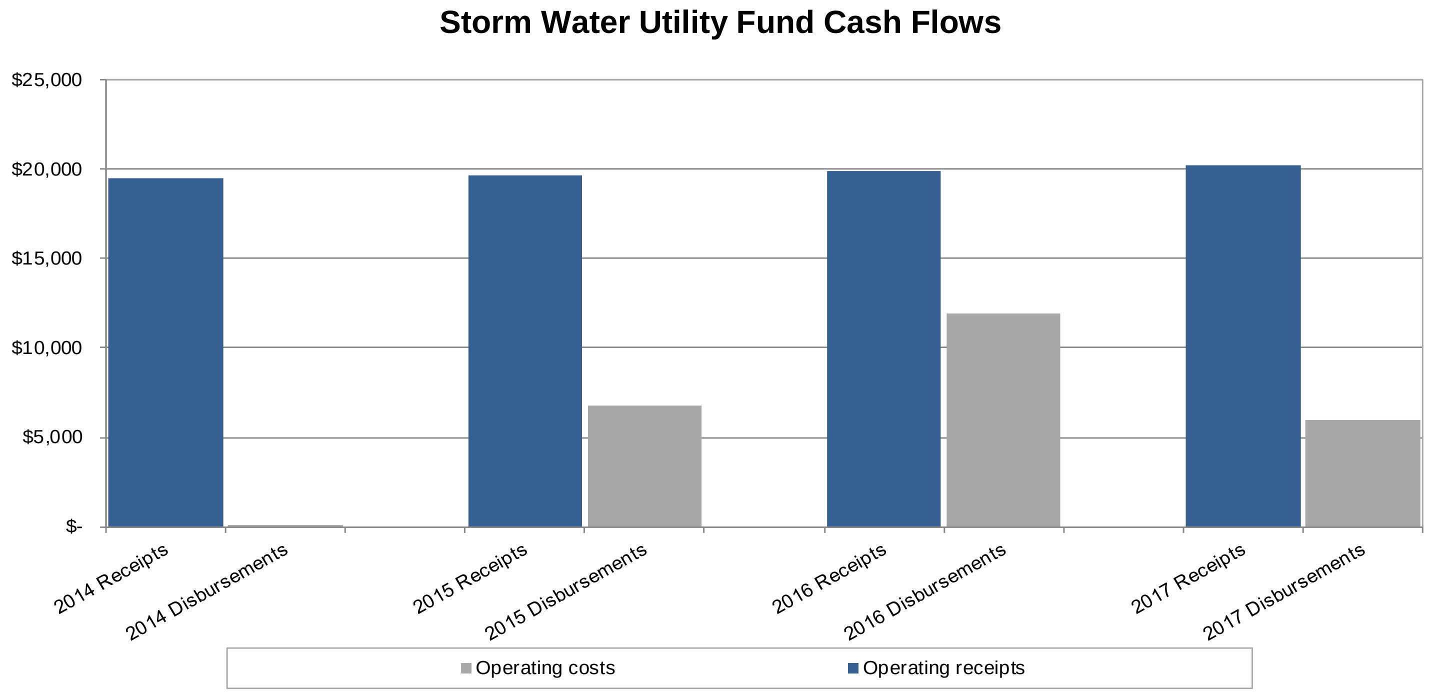


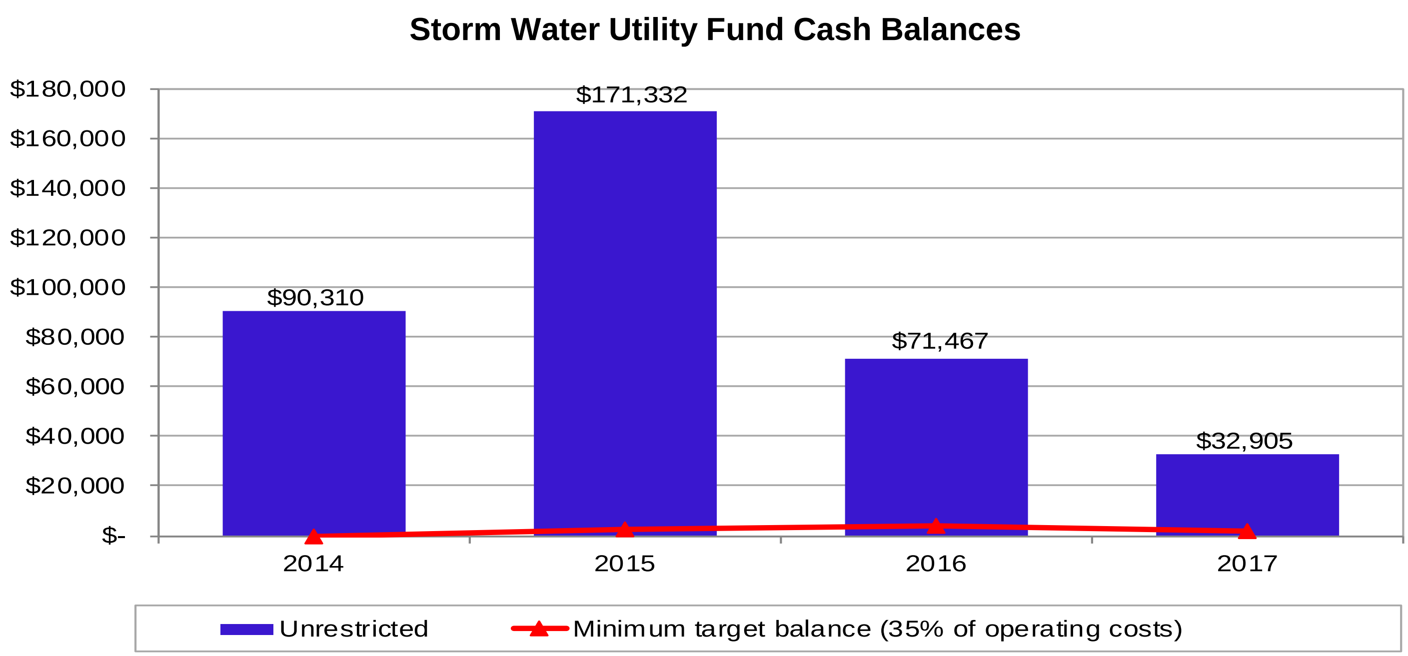


	2014	2015	2016	2017
Bonds Payable	$ 3,096,000	$ 2,823,400	$ 2,538,850	$ 2,273,052
Accumulated Depreciation	$ 2,728,118	$ 2,995,864	$ 3,273,139	$ 3,557,408

Storm Water Utility Fund

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





	2014	2015	2016	2017
Accumulated Depreciation	$ 87,893	$ 116,366	$ 130,602	$ 144,838

The Storm Water Utility fund operating receipts did not exceed operating disbursements. Overall, cash is not in excess of the minimum target balance.

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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	2013	2014	2015	2016	2017
Debt to Assets	Total liabilities/total assets	Government-wide	40%	42%	38%	35%	31%
			36%	*37%*	*41%*	*40%*	*N/A*
Debt Service Coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	53%	51%	51%	43%	63%
			99%	*98%*	*100%*	*93%*	*N/A*
Debt Per Capita	Bonded debt/population	Government-wide	$ 4,800	$ 4,305	$ 4,523	$ 3,894	$ 3,411
			$ 3,309	*$ 3,433*	*$ 3,307*	*$ 2,997*	*N/A*
Taxes Per Capita	Tax revenues/population	Government-wide	$ 520	$ 511	$ 518	$ 485	$ 480
			$ 466	*$ 464*	*$ 469*	*$ 483*	*N/A*
Current Expenditures Per Capita	Governmental fund current expenditures/population	Governmental fund:	$ 357	$ 324	$ 320	$ 356	$ 382
			$ 805	*$ 819*	*$ 810*	*$ 833*	*N/A*
Capital Expenditures Per Capita	Governmental fund capital outlay/population	Governmental fund:	$ 52	$ 208	$ 1,075	$ 336	$ 55
			$ 293	*$ 342*	*$ 385*	*$ 443*	*N/A*
Capital Assets % Left to Depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	60%	57%	57%	57%	55%
			57%	*56%*	*55%*	*55%*	*N/A*
Capital Assets % Left to Depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	73%	69%	67%	63%	59%
			59%	*60%*	*59%*	*58%*	*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. 75 - *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension*

Summary

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) 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. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

Effective Date

This Statement is effective for fiscal years beginning after June 15, 2017. 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 OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.
- Explanations of how and why the OPEB liability changed from year to year will improve transparency.

Future Accounting Standard Changes (Continued)

- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.

- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return.

- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations.

- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms.

- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

Future Accounting Standard Changes (Continued)

GASB Statement No. 83 - *Certain Asset Retirement Obligations*

Summary

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Future Accounting Standard Changes (Continued)

How the Changes in This Statement Will Improve Financial Reporting

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

GASB Statement No. 84 - *Fiduciary Activities*

Summary

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

Future Accounting Standard Changes (Continued)

GASB Statement No. 85 - *Omnibus 2017*

Summary

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements.

GASB Statement No. 86 - *Certain Debt Extinguishment Issues*

Summary

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Future Accounting Standard Changes (Continued)

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

How the Changes in This Statement Will Improve Accounting and Financial Reporting

The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance.

GASB Statement No. 87 - *Leases*

Summary

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

How the Changes in This Statement Will Improve Accounting and Financial Reporting

This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

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Restriction on Use

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 21, 2018