Management Letter

City of North Mankato
North Mankato, Minnesota

For the Year Ended
December 31, 2014

ABDO
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MEYERS LLP
Certified Public Accountants & Consultants

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June 9, 2015

Management, Honorable Mayor and City Council
City of North Mankato, 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 North Mankato (the City) for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 to you dated December 18, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

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

Also, 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. 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 did identify a certain deficiency in internal control described on the following page as item 2014-001 that we consider to be a significant deficiency.

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P.O. Box 3166
Mankato, MN 56002-3166
507.625.2727 | Fax 507.388.9139

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 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. However, based on recent auditing standards, 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 ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.
Cause:	From a practical standpoint, we prepare the statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with organizations 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. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.
Recommendation:	Under these circumstances, the most effective controls lie in management's knowledge of the Organization's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situations listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your accounting information from your accounting software to the amounts reported in the financial statements.

Management response:

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 that are required to be reported under *Government Auditing Standards* or Minnesota statutes.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you through various means.

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 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, except for a restatement related to reporting the Port Authority, formerly a discretely presented component unit, as a blended component unit.

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. Significant estimates affecting the financial statements include the capital asset basis, the depreciation on capital assets, allowance for doubtful accounts as well as the liability for the City's Other Post Employment Benefits (OPEB).

- Capital asset basis is based on estimated historical cost of the capital assets.

- Depreciation is based on the estimated useful lives of capital assets.

- Management's estimate of the allowance is based on past uncollectible accounts.

- OPEB liability is based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, turnover, and healthcare cost trend rate.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either indidvidually 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 9, 2015.

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 Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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Financial Position and Results of Operations

Our principal observations and recommendations are summarized below. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended December 31, 2014.

General Fund

All general governmental functions of the City which are not accounted for in separate funds are included in the General fund.

Minnesota municipalities must maintain substantial amounts of fund balance in order to meet their liquidity and working capital needs as an operating entity. That is because a substantial portion of your revenue sources (taxes and intergovernmental revenues) are received in the last two months of each six-month cycle.

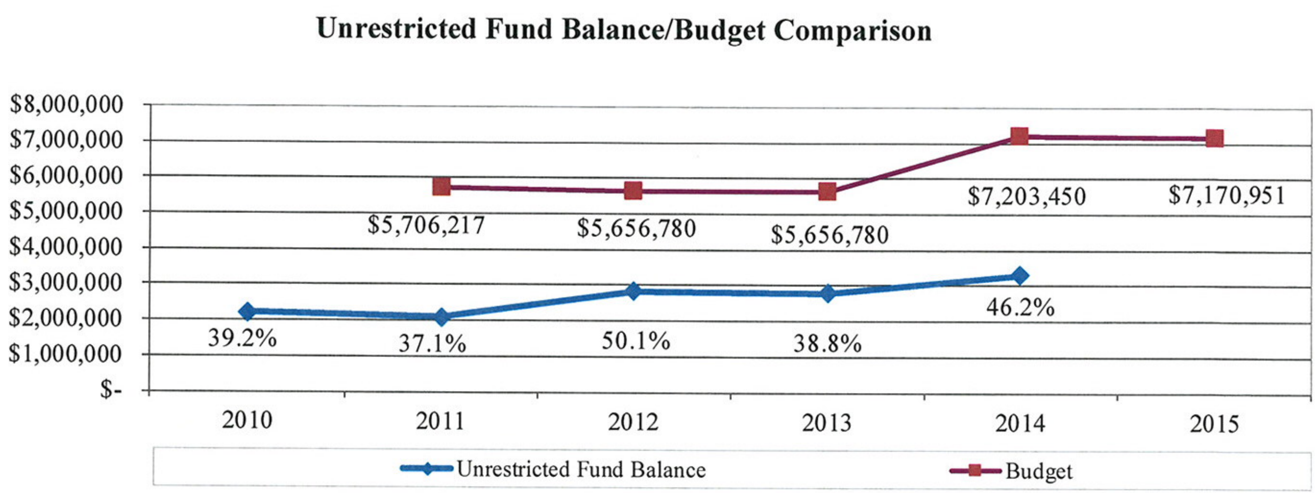
As you can see from the following information, it is necessary to maintain fund balance in order to keep pace with the increasing operating budget. *This information is also presented in graphic form below.*

Year	Unassigned Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2010	$ 2,238,480	2011	$ 5,706,217	39.2 %
2011	2,096,451	2012	5,656,780	37.1
2012	2,836,811	2013	5,656,780	50.1
2013	2,794,394	2014	7,203,450 *	38.8
2014	3,315,595	2015	7,170,951	46.2

* Starting in 2014, certain special revenue funds were closed and budgeted into the General fund causing the percent of fund balance to budget for 2013 to decrease.

We compiled a peer group average derived from information we requested from the Office of the State Auditor for Cities of the 3rd class which have populations of 10,000-20,000. In 2012 and 2013, the average General fund balance as a percentage of expenditures was 76 percent and 76 percent, respectively. The City's total General fund balance is 46.1 percent of expenditures. Based on comparison to the peer groups, the City's total General fund balance is below that average.

The following is an analysis of the General fund's unrestricted fund balance for the past five years compared to the following year's budget:



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The General fund balance increased by $434,400 in 2014. The total unrestricted fund balance of $3,315,595 represents 46.2 percent of the 2015 budget. Many other organizations, including the Office of the State Auditor (the OSA) and League of Minnesota Cities (LMC) recommend that unassigned fund balance be anywhere from 35 to 50 percent of planned expenditures. We concur with those recommendations.

Although there is no legislation regulating fund balance, it is a good policy to assign intended use of fund balance. This helps address citizen concerns as to the use of fund balance and tax levels. The City should consider documenting assignments for intended use of fund balance at and above the fifty percent level. This documentation could be accomplished by an annual resolution to identify intended use of available fund balance. We recommend a minimum unassigned fund balance be approximately 40 percent to 50 percent of planned disbursements. So at the current level, the fund balance is considered about what is recommended.

The purposes and benefits of a 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 governmental fund expenditures.
- The City is vulnerable to legislative actions at the State and Federal level. The State continually adjusts the local government aid formulas. We also have seen the State mandate levy limits for cities over 2,500 in population. An adequate fund balance will provide a temporary buffer against those aid adjustments or levy limits.
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Council action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.
- A strong fund balance will assist the City in maintaining, improving or obtaining its bond rating. The result will be better interest rates in future bond sales.

The 2014 General fund operations are summarized as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 6,921,021	$ 6,990,430	$ 69,409
Expenditures	6,993,450	7,191,926	(198,476)
Excess (deficiency) of revenues over (under) expenditures	(72,429)	(201,496)	(129,067)
Other financing sources (uses)			
Sale of assets	-	2,380	2,380
Transfers in	389,700	868,516	478,816
Transfers out	(210,000)	(235,000)	(25,000)
Total other financing sources (uses)	179,700	635,896	456,196
Net change in fund balances	$ 107,271	434,400	$ 327,129
Fund balances, January 1		2,881,304	
Fund balances, December 31		$ 3,315,704	

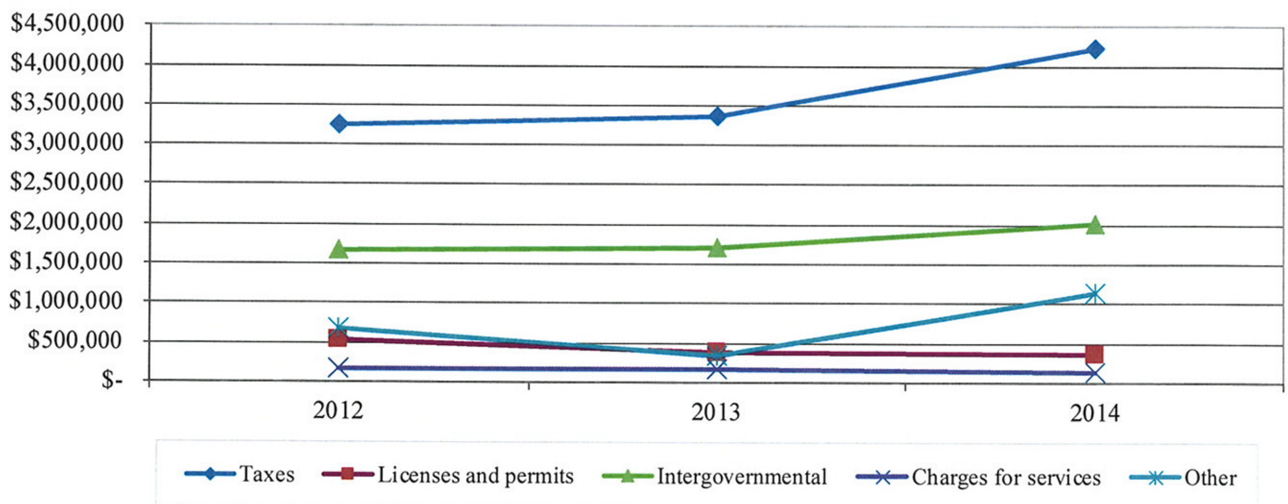
Some of the larger variance items are as follows:

- Intergovernmental revenue was over budget by $130,248
- Charges for services were under budget by $116,860
- Miscellaneous revenue was over budget by $70,842
- General government expenditures were under budget by $149,448
- Miscellaneous expenditures were over budget by $116,945
- Capital outlay was over budget by $318,745
- Transfers in were over budget by $478,816

A comparison of General fund revenues and transfers for the last three years is presented below:

Source	2012	2013	2014	Percent of Total	Per Capita
Taxes	$ 3,244,213	$ 3,371,326	$ 4,220,158	53.6 %	$ 312
Special assessments	49,776	13,755	13,949	0.2	1
Licenses and permits	526,752	388,769	357,809	4.6	26
Intergovernmental	1,670,304	1,703,588	2,011,965	25.6	149
Charges for services	164,327	166,102	134,075	1.7	10
Fines and forfeits	27,172	21,599	20,068	0.3	1
Investment earnings	1,367	1,367	2,504	-	-
Miscellaneous	137,217	99,966	229,902	2.9	17
Transfers in	461,177	200,026	868,516	11.1	64
Total revenues and transfers	$ 6,282,305	$ 5,966,498	$ 7,858,946	100.0 %	$ 580

General Fund Revenues by Source



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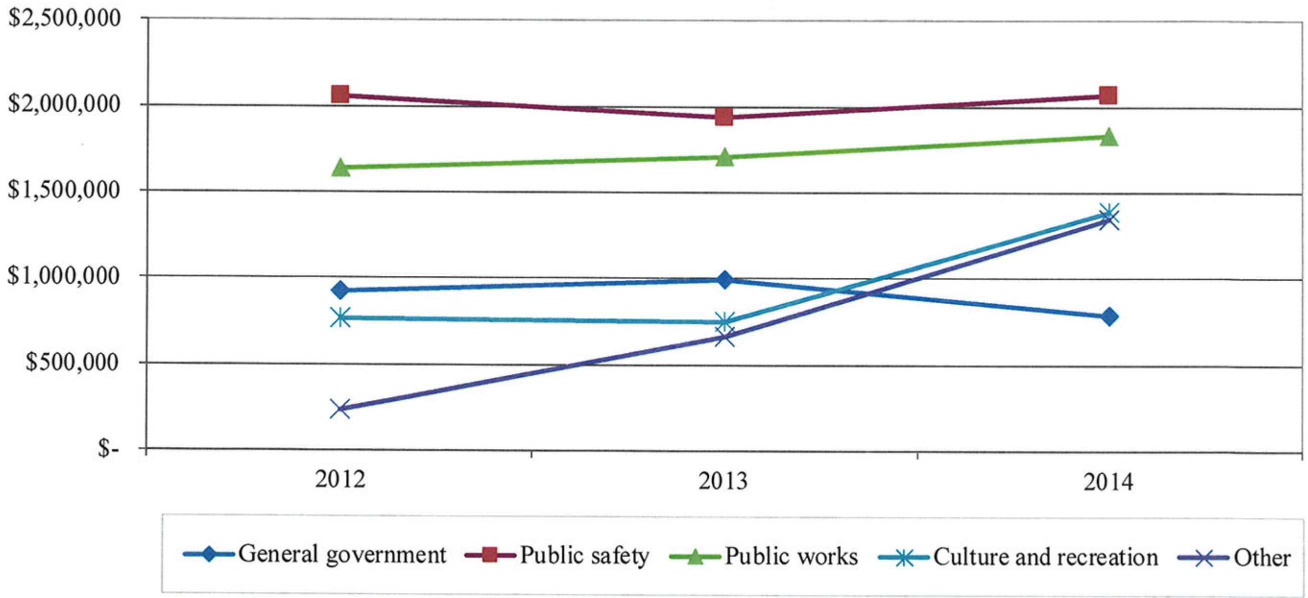
A comparison of General fund expenditures and transfers for the last three years is presented below:

Program	2012	2013	2014	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	$ 927,260	$ 992,041	$ 785,958	10.6 %	$ 58	$ 113
Public safety	2,060,175	1,936,966	2,071,637	27.9	153	221
Public works	1,643,266	1,707,461	1,831,894	24.7	135	108
Culture and recreation	771,837	748,216	1,389,252	18.7	103	63
Housing and economic	-	267,499	454,742	6.1	34	-
Miscellaneous	76,676	81,906	250,780	3.4	19	12
Total current	5,479,214	5,734,089	6,784,263	91.4	502	517
Capital outlay	40,303	271,617	389,745	5.2	29	16
Debt service	-	17,918	17,918	0.2	1	-
Transfers out	117,388	21,643	235,000	3.2	17	-
Total expenditures and transfers	$ 5,636,905	$ 6,045,267	$ 7,426,926	100.0 %	$ 549	$ 533

General Fund Expenditures by Program



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Special Revenue Funds

Special revenue funds have revenue from specific sources to be used for specific purpose. Listed below are the special revenue funds of the City along with the fund balances for 2014 and 2013 and the net change:

Fund	December 31, 2014	December 31, 2013	Increase (Decrease)
Nonmajor			
Library	$ - *	$ 70,887	$ (70,887)
Bookmobile	- *	72,185	(72,185)
Library Endowment	51,049	51,049	-
Community Development Block Grant	-	(3,178)	3,178
Community Development	- *	320,948	(320,948)
Local Option Sales Tax	91,378	218,434	(127,056)
Park Development	15,680	14,180	1,500
Parkland	- *	89,828	(89,828)
Flood Control	-	46,650	(46,650)
Contingency	- *	49,061	(49,061)
Port Authority	192,648	198,985	(6,337)
Federal Revolving Loan	1,588,259	1,552,302	35,957
Local Revolving Loan	239,895	232,692	7,203
State Revolving Loan	993	993	-
Joint Economic Development	59,030	235,863	(176,833)
Marigold TIF #8	(402,351)	(609,138)	206,787
Webster Redevelopment TIF #14	20,719	-	20,719
Creative Companies TIF #16	35,704	35,704	-
Webster Avenue TIF #2	909	-	909
422 Belgrade TIF #19	22,114	22,264	(150)
Total	$ 1,916,027	$ 2,599,709	$ (683,682)

* During 2014, these funds were closed into the General fund.

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 following is a summary of Debt Service fund assets and outstanding debt as of December 31, 2014:

Debt Description	Total Cash and Temporary Investments	Total Assets	Outstanding Debt	Maturity Date	
General Obligation Bonds					
G.O. Equipment Certificates - 2006D	$ -	$ -	$ 480,000	02/01/15	(1)
Bond Reserve	266,218	963,777	-	N/A	
G.O. Capital Improvements - 2008C	-	-	1,025,000	02/01/19	
General Obligations - 2011A	8	8	3,215,000	02/01/34	
G.O. Capital Improvements - 2012A	-	-	430,000	02/01/20	
General Obligations - 2014A	31,231	53,458	2,845,000	12/01/29	
Total G.O. Bonds	297,457	1,017,243	7,995,000		
Tax Increment Bonds					
Taxable G.O. Tax Increment Bonds of 2010D	90,791	90,791	810,000	02/01/37	
Taxable G.O. Tax Increment Revenue Bonds of 2011B	31,883	31,883	445,000	02/01/35	
Total Tax Increment Bonds	122,674	122,674	1,255,000		
G.O. Special Assessment Bonds					
2001B G.O. Improvement Bonds	-	-	-	Matured	
2004 G.O. Improvement Bonds	412,126	415,132	-	Matured	
2005A G.O. Improvement Bonds	-	-	255,000	02/01/20	(2)
2005D G.O. Improvement Bonds	14,234	934,522	-	Matured	
2006C G.O. Improvement Bonds	-	-	585,000	02/01/18	(3)
2007A G.O. Improvement Bonds	165,779	1,024,793	485,000	02/01/18	
2008A G.O. Improvement Bonds	-	66,230	880,000	02/01/19	
2009D G.O. Improvement Bonds	61,865	2,597,007	2,440,000	04/01/25	
2010A G.O. Improvement Bonds	203,704	1,122,499	2,130,000	12/01/27	
2010C G.O. Refunding Bonds	-	1,784,795	2,835,000	02/01/22	
2012A G.O. Crossover Refunding Bonds	-	-	305,000	02/01/16	
Total G.O. Special Assessment Bonds	857,708	7,944,978	9,915,000		
G.O. Revenue Bonds					
G.O. Port Authority Taxable Refunding Bonds of 2009A	-	-	810,000	02/01/19	
2009C G.O. Sales Tax Revenue Bonds	-	-	1,875,000	12/01/24	
2010B G.O. Sales Tax Revenue Bonds	-	-	600,000	12/01/25	
Total G.O. Revenue Bonds	-	-	3,285,000		
Total All Debt Service Funds	$ 1,277,839	$ 9,084,895	$ 22,450,000		
Future Interest on Debt			$ 4,921,415		

(1) (2) (3) These three issues are reported in a single Debt Service fund

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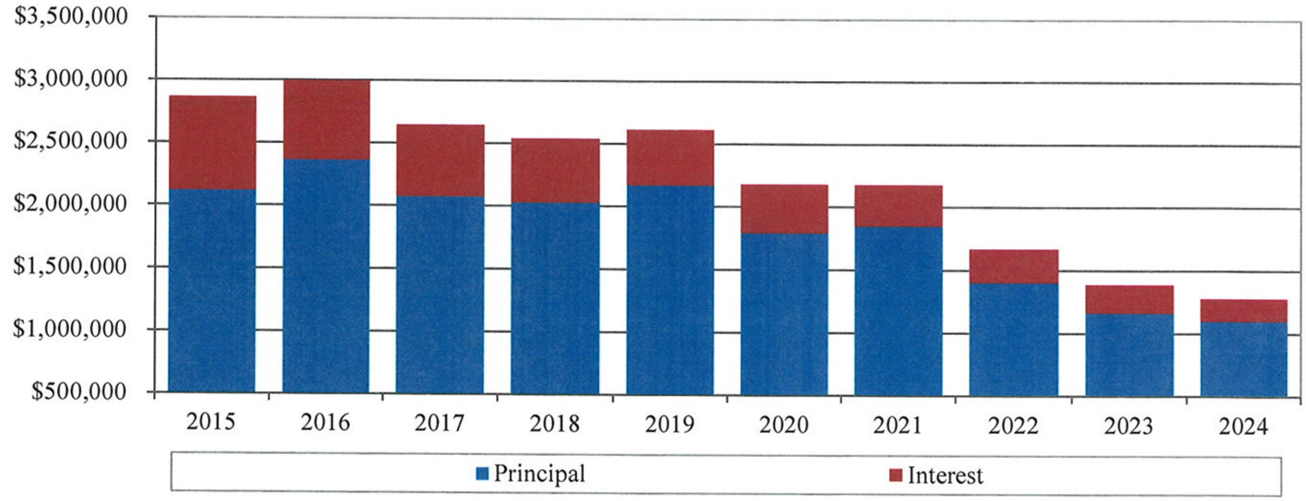
The City's outstanding debt is required to be funded by various resources such as special assessments, tax increments, property taxes, transfers from enterprise funds, etc. Special assessments and tax increments are usually certified once to the County for collection, but tax levies need to be certified annually. We recommend management pay particular attention to annual tax levies and transfers listed in each bond issue book to ensure proper funding of debt service. We recommend the City continue to monitor these deficits and future funding of debt service payments.

Any funds whose debt has matured can be closed to other funds. At December 31, 2014, the City has the 2001B, 2004 and 2005D Improvement Bonds funds that can be closed.

The annual debt service requirements for the next 10 years for the debt detailed above are as follows:



Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds. The table below compares 2014 fund balances with 2013:

Fund	Fund Balances December 31, 2014	Fund Balances December 31, 2013	Increase (Decrease)
Major			
2014 Construction	$ 930,556	$ -	$ 930,556
Nonmajor			
Capital Facilities and Equipment Replacement - General	241,889	26,568	215,321
2011 Construction	(1,995)	(7,755)	5,760
2013 Construction	-	(15,474)	15,474
2015 Construction	(29,681)	-	(29,681)
Port Authority Construction	-	17,030	(17,030)
Total	$ 1,140,769	$ 20,369	$ 1,120,400

The City should analyze project's status each year and close those that are completed.

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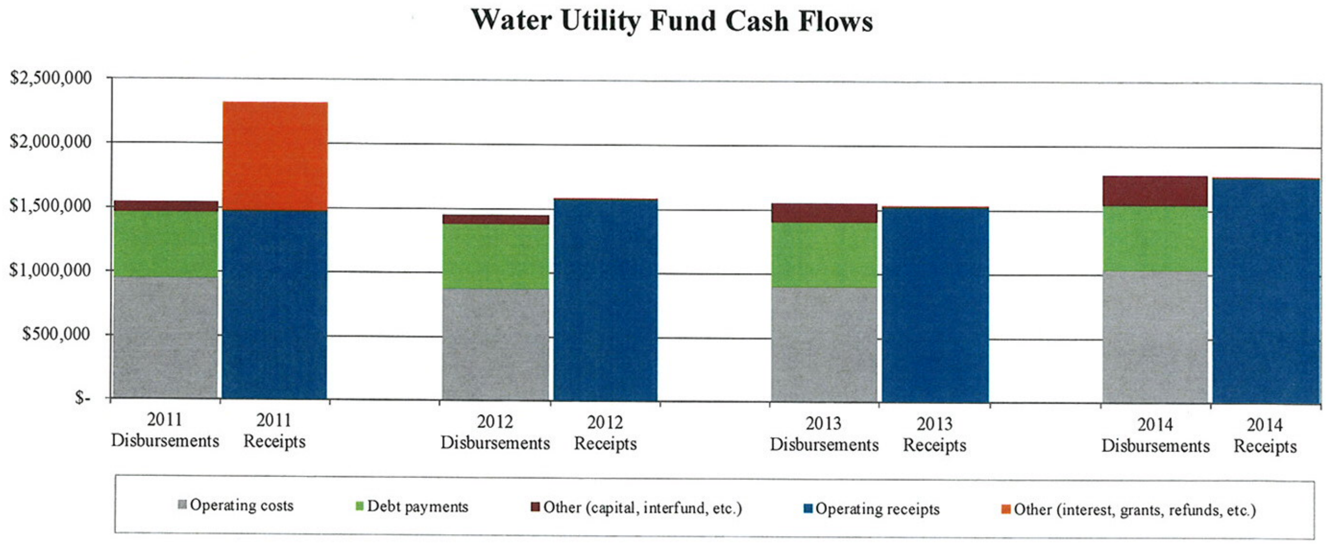
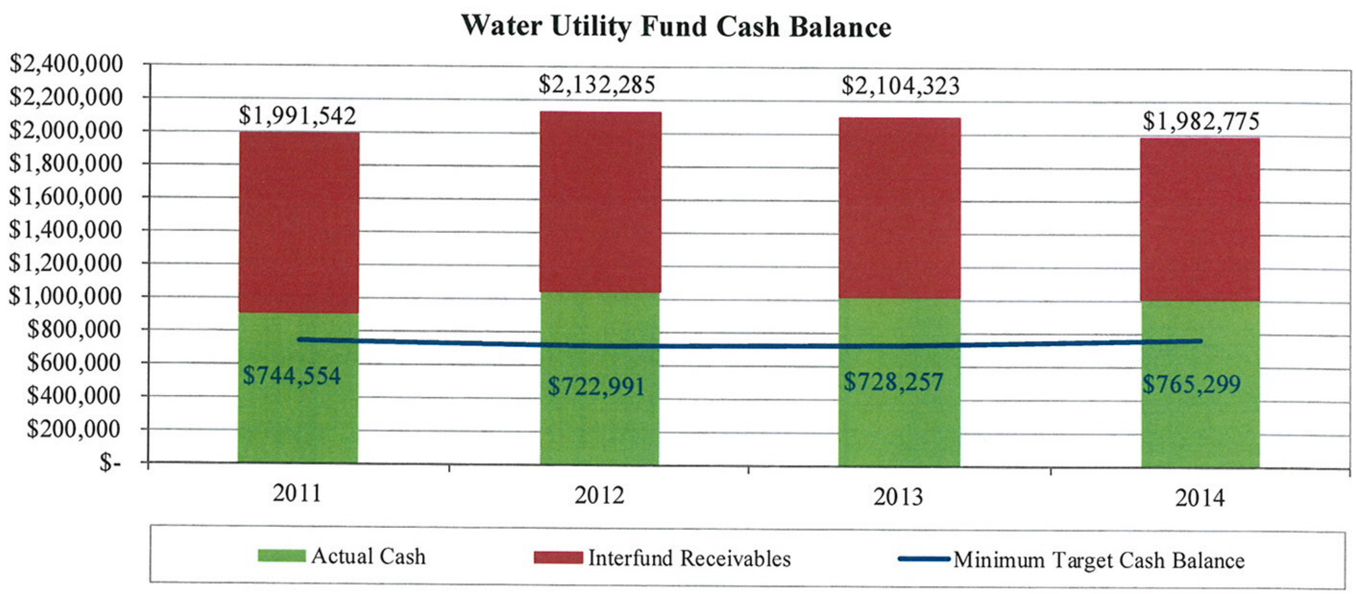
Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises-where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. A comparison of enterprise fund cash flows and cash balances for the past four years is as follows:





The minimum target cash balance is based off 25 percent of operating costs plus the next year's debt payments for the fund.

	2011	2012	2013	2014
Bonds payable	$ 5,671,916	$ 4,471,083	$ 4,118,250	$ 3,758,750

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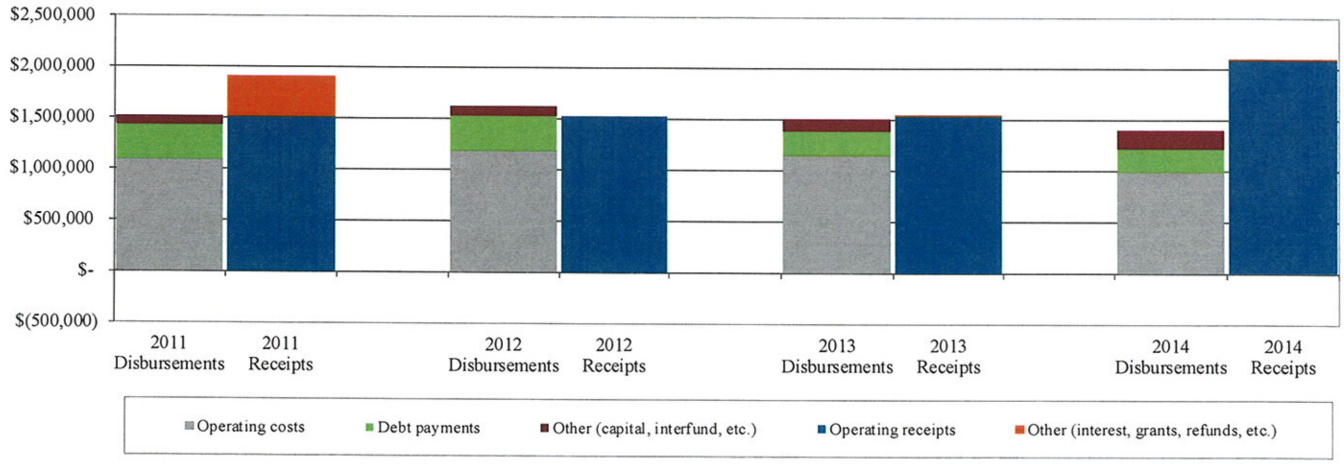
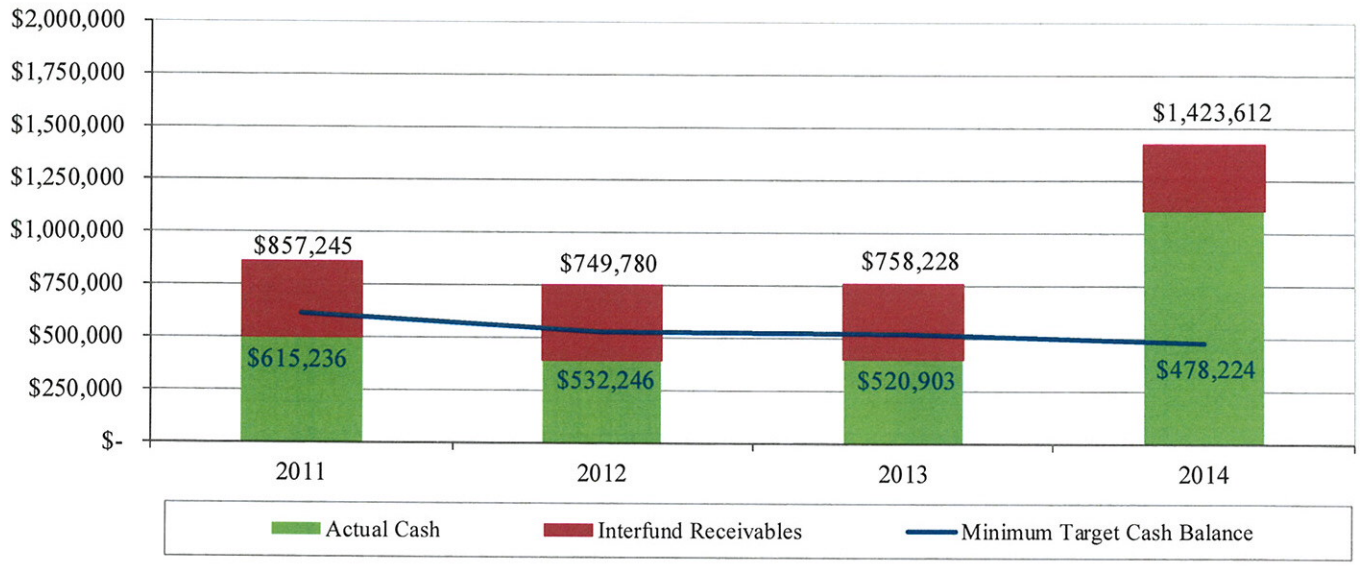
Sewer Utility Fund Cash Flows



Sewer Utility Fund Cash Balance



The minimum target cash balance is based off of 25 percent of operating costs plus the next year's debt payments for the fund.

	2011	2012	2013	2014
Bonds payable	$ 1,926,940	$ 1,622,018	$ 1,446,926	$ 1,268,847

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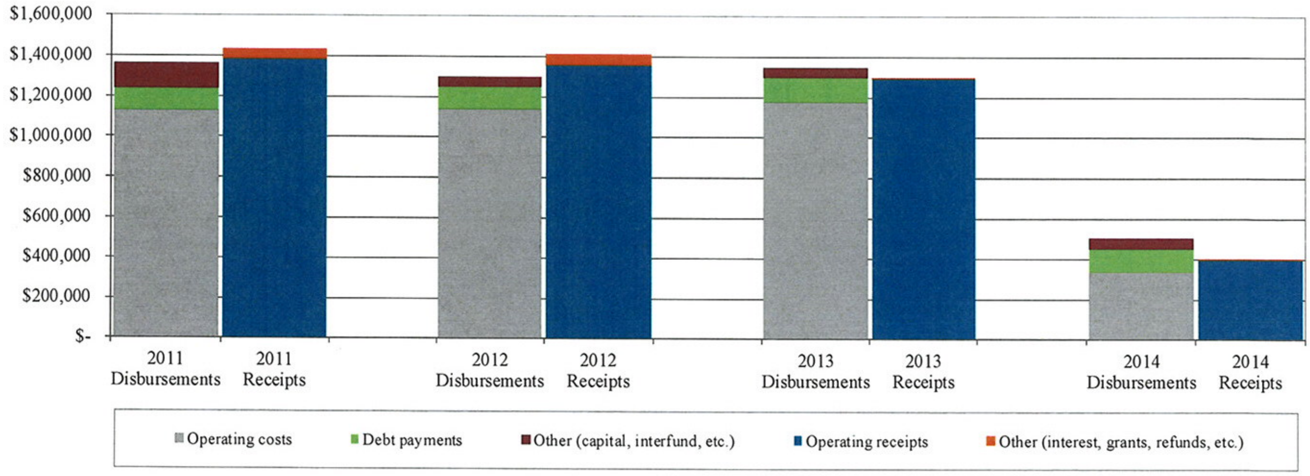
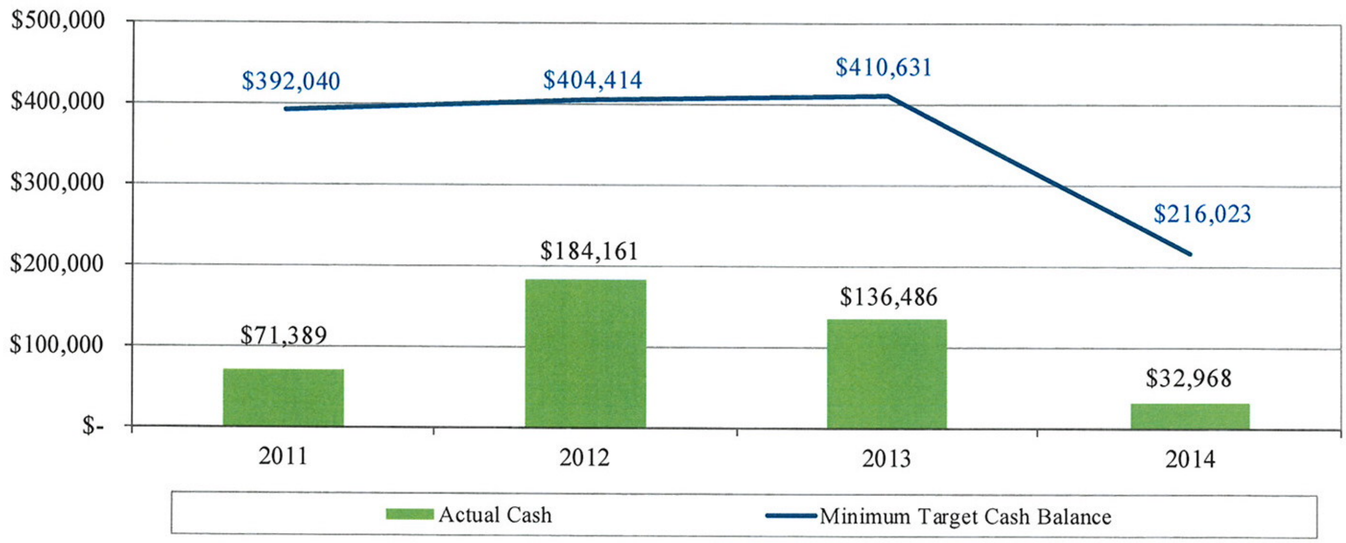
Sanitary Collection Fund Cash Flows



Sanitary Collection Fund Cash Balance



The minimum target cash balance is based off of 25 percent of operating costs plus the next year's debt payments for the fund.

	2011	2012	2013	2014
Bonds payable	$ 1,120,000	$ 1,995,000	$ 1,930,000	$ 1,865,000

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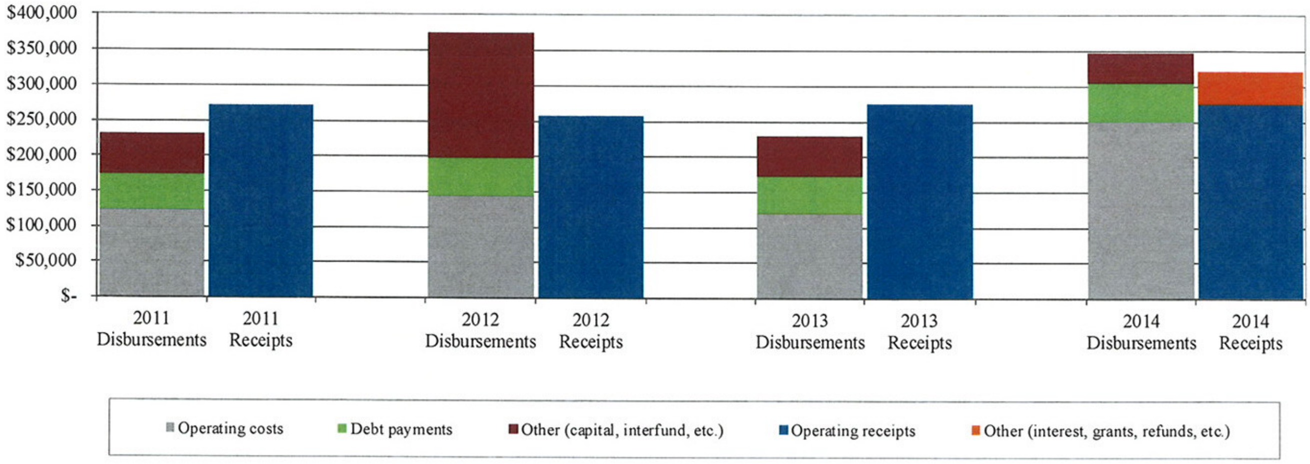
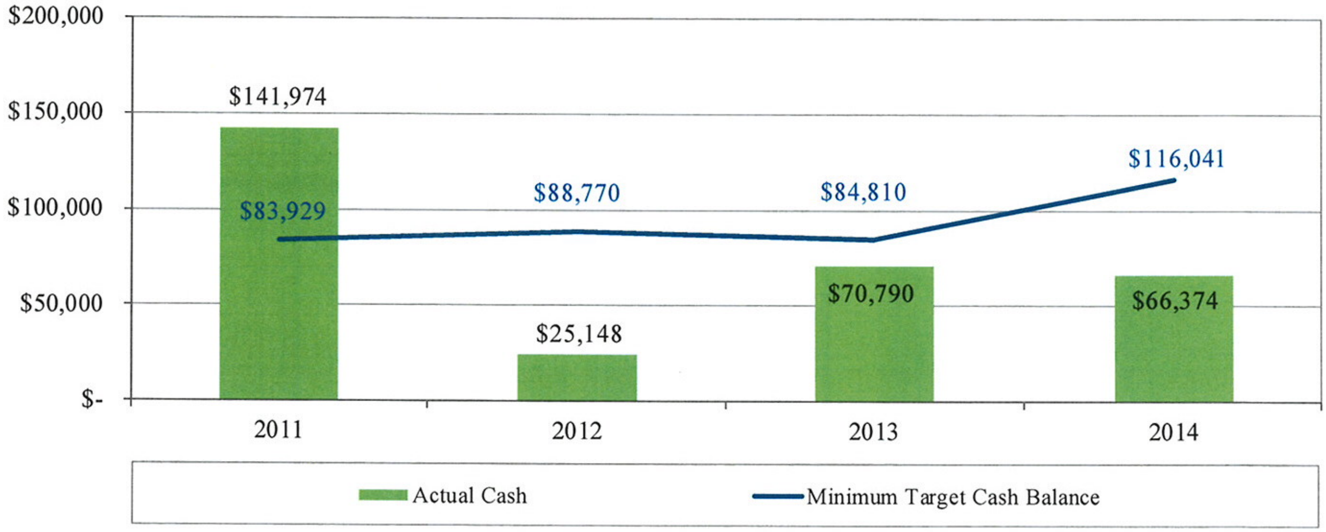
Storm Water Fund Cash Flows



Storm Water Fund Cash Balance

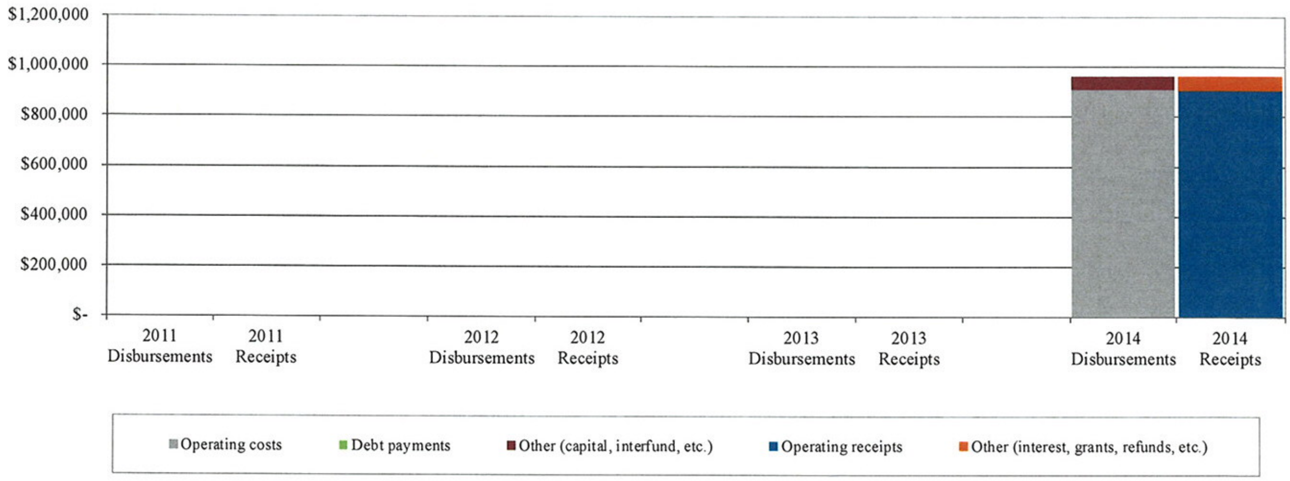


The minimum target cash balance is based off of 25 percent of operating costs plus the next year's debt payments for the fund.

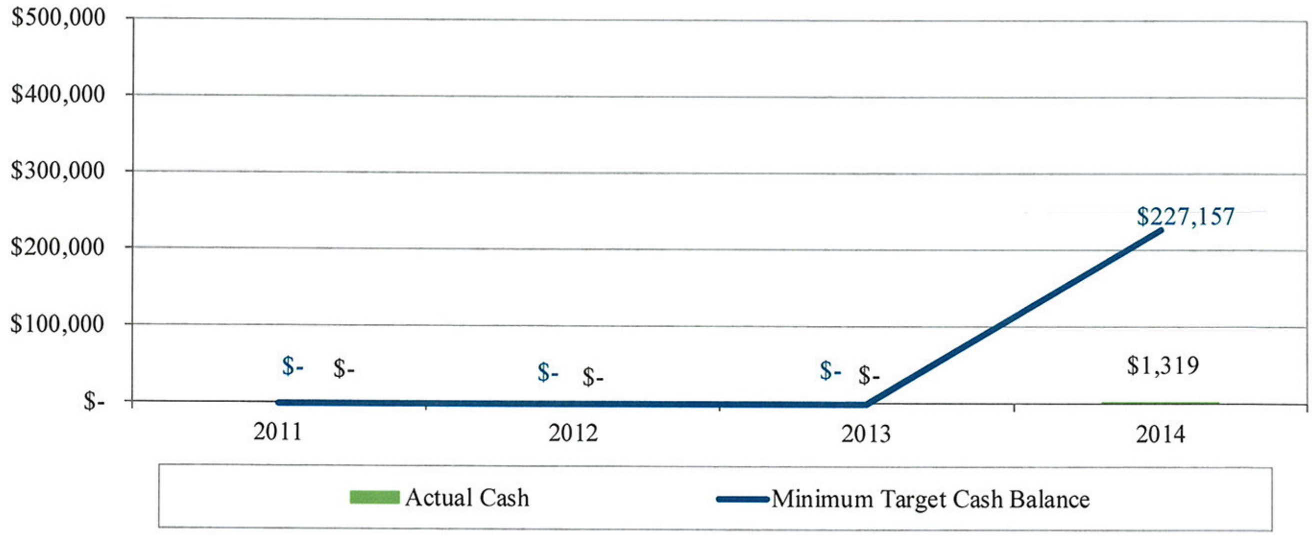
	2011	2012	2013	2014
Bonds payable	$ 527,334	$ 493,167	$ 458,250	$ 420,000

People + Process. Going Beyond the Numbers

Solid Waste Fund Cash Flows



Solid Waste Fund Cash Balance



The minimum target cash balance is based off of 25 percent of operating costs for the fund.

We recommend the City continue to review rates annually and determine if increases are required to:

- Fund continuing operating expenses.
- Maintain contingency requirements for unexpected repairs.
- Provide for capital replacement requirements.

Ratio Analysis

The following captures a few ratios from the City's financial statements that give some additional information for trend and peer group analysis. The peer group average is derived from information available from the Office of the State Auditor for cities of the 3rd class (10,000 to 20,000). The majority of these ratios facilitate the use of economic resources focus and accrual basis of accounting at the government-wide level. A combination of liquidity (ability to pay its most immediate obligations), solvency (ability to pay its long-term obligations), funding (comparison of financial amounts and economic indicators to measure changes in financial capacity over time) and common-size (comparison of financial data with other cities regardless of size) ratios are shown below.

				Year		
Ratio	Calculation	Source	2011	2011	2012	2013
Debt to assets	Total liabilities/total assets	Government-wide	44%	45%	44%	43%
			36%	*32%*	*33%*	*32%*
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	1.0	1.2	1.2	1.4
			0.8	*0.9*	*1.2*	*1.4*
Debt per capita	Bonded debt/population	Government-wide	$ 2,107	$ 2,052	$ 2,557	$ 2,273
			$ 2,503	*$ 2,253*	*$ 2,641*	*$ 2,634*
Taxes per capita	Tax revenues/population	Government-wide	$ 429	$ 405	$ 458	$ 494
			$ 468	*$ 442*	*$ 465*	*$ 485*
Current expenditures per capita	Governmental fund current expenditures / population	Governmental funds	$ 482	$ 529	$ 524	$ 605
			$ 632	*$ 636*	*$ 601*	*$ 633*
Capital expenditures per capita	Governmental fund capital expenditures / population	Governmental funds	$ 286	$ 287	$ 401	$ 181
			$ 284	*$ 257*	*$ 295*	*$ 267*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	65%	69%	59%	54%
			67%	*63%*	*60%*	*59%*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	88%	85%	69%	68%
			68%	*68%*	*62%*	*61%*

Represents City of North Mankato
Represents Peer Group Ratio

Debt-to-Assets Leverage Ratio (Solvency Ratio)

The debt-to-assets leverage ratio is a comparison of a city's total liabilities to its total assets or the percentage of total assets that are provided by creditors. It indicates the degree to which the City's assets are financed through borrowings and other long-term obligations (i.e. a ratio of 50 percent would indicate half of the assets are financing with outstanding debt).

Debt Service Coverage Ratio (Solvency Ratio)

The debt coverage ratio is a comparison of cash generated by operations to total debt service payments (principal and interest) of enterprise funds. This ratio indicates if there are sufficient cash flows from operations to meet debt service obligations. Except in cases where other nonoperating revenues (i.e. taxes, assessments, transfers from other funds, etc.) are used to fund debt service payments, an acceptable ratio would be above 1.

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.

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.

Future Accounting Standard Changes - Continued

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.

GASB Statement No. 72 - *Fair Value Measurement and Application*

Summary

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair Value Measurement

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

A fair value measurement takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, a government should be able to use the fair value of that asset to measure the fair value of the liability.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.