Management Letter

City of New Richland

New Richland, Minnesota

For the Year Ended
December 31, 2014

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

People + Process. Going Beyond the Numbers

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

February 27, 2015

Management, Honorable Mayor and City Council
City of New Richland, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Richland, Minnesota (the City) as of and for the year ended December 31, 2014 , which collectively comprise the City's basic financial statements and have issued our report thereon dated February 27, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *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 to you dated December 18, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America, *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. Our audit of the financial statements does not relieve you or management of your responsibilities.

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 audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiency described on the following pages as finding 2014-003 to be a material weakness.

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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. We consider the deficiencies described below as findings 2014-001 and 2014-002 to be significant deficiencies.

2013-001 Segregation of duties

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

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.

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

Internal control over payroll

Cause: As a result of the small number of staff, the Clerk/Treasurer controls and maintains the check stock, sets up and maintains employee records, runs the payroll, prepares the checks, signs checks using e-signatures in Banyon system, posts activity to the general ledger, reconciles bank accounts, prepares payroll tax returns, and maintains the payroll records.

Recommendation: While we recognize number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. Additional controls might include review of payroll registers, earnings records, payroll reports, etc.

Management response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated response from prior year:

The City is continuing to develop policies and procedures to provide compensating controls for the segregation of duties.

2013-001 Segregation of duties - Continued

<u>Internal control over disbursements</u>

Cause: As a result of the small number of staff, the Assistant Clerk sets up vendors in Banyon, opens the mail, prepares checks, mails checks, and maintains the purchase journal.

Recommendation: We recommend that when the Assistant Clerk prepares the checks, the Clerk/Treasurer be responsible for mailing them to vendors and vice versa. We also recommend the Clerk/Treasurer initial invoices when approved for payment. Additionally we recommend an individual separate from the Clerk/Treasurer review cancelled checks received with the bank statement and investigate items such as: void checks, inconsistencies in check sequence, possible alterations, and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the Council is aware of this condition and monitor all financial information.

Management response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated response from prior year:

The City is continuing to develop policies and procedures to provide compensating controls for the segregation of duties.

<u>Internal control over cash receipts</u>

Cause: As a result of the small number of staff, the Assistant Clerk is responsible for setting up customers in Banyon, opening the mail, receiving and endorsing checks, preparing and taking the deposit to the bank, generating billing statements, and maintaining accounts receivable records.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitors all financial information. We recommend that the Clerk/Treasurer be responsible for preparing deposit slips in order to improve segregation of reconciling activities related to cash receipts. Additional controls might include obtaining and reviewing monthly receipt information.

Management response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of deposits, regular review of financial statements and budget comparisons.

Updated response from prior year:

The City is continuing to develop policies and procedures to provide compensating controls for the segregation of duties.

2013-001 Segregation of duties - Continued

Internal control over utility billing

Cause: As a result of the small number of staff, the Assistant Clerk sets up new customers in the Banyon system, opens the mail, receives and endorses checks, prepares the deposit and takes it to the bank, generates billing statements, and maintains receivable subledgers.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitors all financial information. We recommend that the Clerk/Treasurer be responsible for preparing deposit slips in order to improve segregation of reconciling activities related to utility billing. Additional controls might include reviewing quarterly billing registers, adjustments to accounts and employee billing registers.

Management response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated response from prior year:

The City is continuing to develop policies and procedures to provide compensating controls for the segregation of duties.

2013-002 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 out 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 City'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 situation 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 Banyon year-end financial report to the fund of financial statements.

Management response:

The City is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small cities. Each year, the City has a presentation from our auditor to the Council after the audit is performed. Management recognizes that it is not economically feasible to fully correct this finding; it is aware of the deficiency and is relying on oversight by management and the Council to monitor the deficiency. The Clerk/Treasurer may attend future classes dealing with governmental financial/accounting practices.

Updated response from prior year:

The City plans on reviewing the disclosure checklist in the future and compare the Banyon financial information to the report.

2013-003 Material audit/accounting adjustments

Condition: During our audit, material adjustments were needed to adjust accounts payable, contributed capital, construction in progress, and debt activity.

Criteria: The financial statements are the responsibility of the City's management.

Cause: City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.

Effect: It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

Recommendation: We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to insure that future corrections are not needed.

Management response:

Management thoroughly reviews journal entries prepared for the audit and asks questions throughout the year in an attempt to eliminate as many adjusting entries as possible.

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 and other matters, 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards* or Minnesota statutes.

Monthly Depreciation Estimates

The City records monthly depreciation expense estimates. This provides Council and management with current and updated operational information for the City's enterprise funds. The amount of this estimate for the coming year for the Water Utility fund is $5,500 per month, for the Sewer Utility fund it is $14,900 per month and for the Cedar Pointe Housing fund it is $1,260.

Written Policies and Procedures

The City is continually developing written policies and procedures to outline job descriptions and should continue to develop and adopt various policies as management deems appropriate. This will be an important part of the City's internal control, and will be helpful if there is staff turnover.

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.

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.

- Management's estimate of capital asset basis is based on estimated historical cost of the capital assets and depreciation is based on the estimated useful lives of capital assets.
- Management's estimate of allowance for doubtful accounts is based on past collection and write-off experience.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

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. We proposed three journal entries that we consider to be audit entries or corrections of management decisions. They related to the following situations:

- A material audit entry was required to adjust accounts payable and construction in progress.
- A material audit entry was required to record capital contributions.
- A material audit entry was required to adjust bond proceeds and related issuance costs.

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 February 27, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. 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.

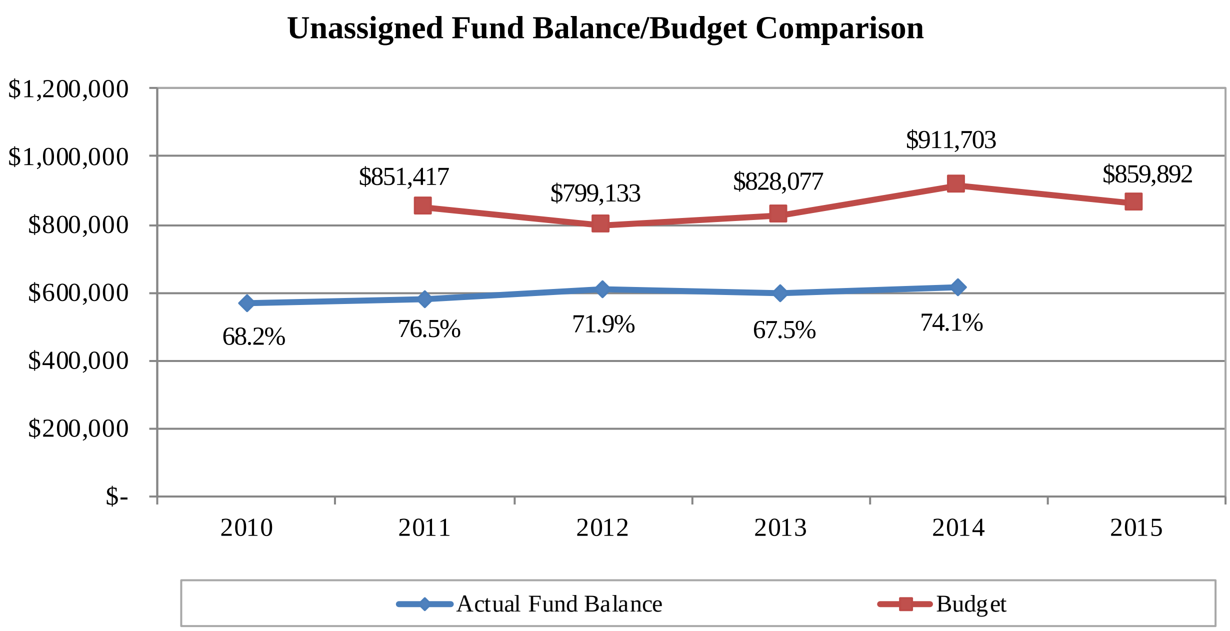
General Fund

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	$ 580,521	2011	$ 851,417	68.2 %
2011	610,943	2012	799,133	76.5
2012	595,174	2013	828,077	71.9
2013	615,092	2014	911,703	67.5
2014	637,387	2015	859,892	74.1

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



We have compiled a peer group average derived from information we have request from the Office of the State Auditor and then compiled data for Cities of the 4th class which have populations below 2,500. In 2012 and 2013, the average General fund balance as a percentage of expenditures was 86 percent and 86 percent, respectively. Based on comparison to the peer groups, the City's general fund balance is below average. The peer group average is derived from information from the Office of the State Auditor.

The fund balance increased by $94,769 in 2014. The total unassigned fund balance of $637,387 represents 74.1 percent of the 2015 budgeted expenditures. Many other organizations, including the Office of the State Auditor (the OSA) and League of Minnesota Cities (LMC) recommend that a unassigned fund balance reserve 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 designate intended use of fund balance. This helps address citizen concerns as to the use of fund balance and tax levels. The City should consider assigning 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 to be approximately 40 percent to 50 percent of planned disbursements. So at the current level, the fund balance is considered higher than 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 and property tax credit 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:

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues	$ 935,095	$ 935,095	$ 930,132	$ (4,963)
Expenditures	911,403	911,403	835,063	76,340
Excess of revenues over expenditures	23,692	23,692	95,069	71,377
Other financing sources (uses)				
Transfers out	(300)	(300)	(300)	-
Net change in fund balances	$ 23,392	$ 23,392	94,769	$ 71,377
Fund balances, January 1			913,706	
Fund balances, December 31			$ 1,008,475	

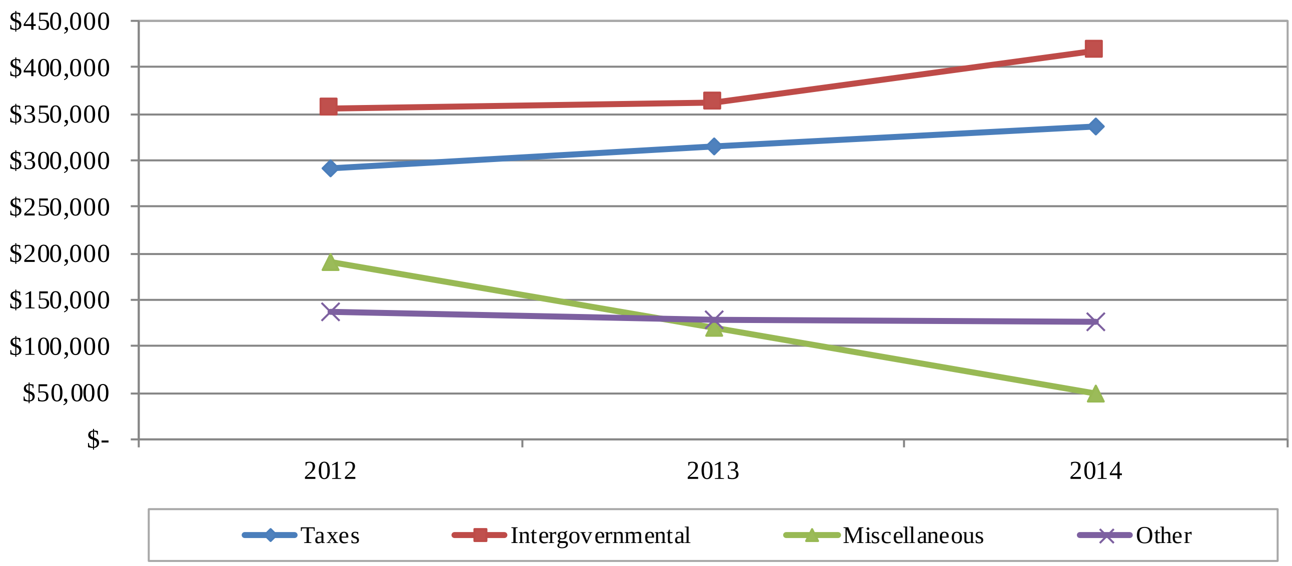
The overall change in fund balance is related to the following:

- Public safety charges for services were under budget by $48,179.
- Contributions and donations were over budget by $26,586 due to donations from the Fire Relief Association and Christmas lights.
- Refunds and reimbursements were over budget by $12,275.
- Street and highways personal services expenditures were under budget $24,443 also due to departure of personnel.
- Public safety expenditures were under budget by $49,103 due to the departure of a full-time police officer, delay in hiring of a replacement and ambulance service staffing.
- Capital outlay expenditures which were over budget by $22,670, specifically for public safety ($9,520) related to fire annex improvements and streets and highways ($16,583) related to seal coating.

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

Source	2012	2013	2014	Percent of Total	Per Capita
Taxes	$ 291,975	$ 314,992	$ 335,898	36.2 %	$ 276
Special assessments	782	317	310	-	-
Licenses and permits	17,279	10,021	14,294	1.5	12
Intergovernmental	355,105	362,494	418,541	45.0	344
Charges for services	110,606	111,003	103,666	11.1	85
Fines and forfeits	5,052	3,314	4,406	0.5	4
Investment earnings	4,362	3,681	3,038	0.3	2
Miscellaneous	190,034	120,661	49,979	5.4	41
Total revenues	$ 975,195	$ 926,483	$ 930,132	100.0 %	$ 764

General Fund Revenues by Source



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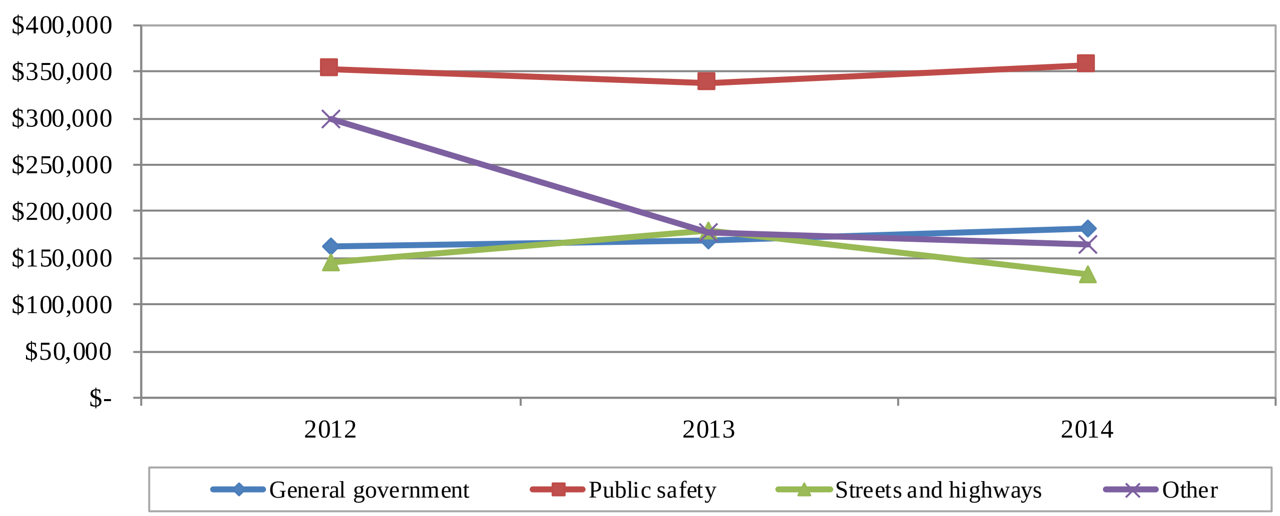
A comparison of General fund expenditures and transfers for the last three years is presented below:

Program	2012	2013	2014	Percent	Per Capita	Peer Group Per Capita
Current						
General government	$ 163,130	$ 169,540	$ 180,908	21.7 %	$ 149	$ 190
Public safety	352,030	336,524	355,664	42.5	292	210
Streets and highways	146,186	178,536	133,415	16.0	110	161
Sanitation and waste removal	1,316	1,312	1,299	0.2	1	-
Culture and recreation	47,913	47,947	34,207	4.1	28	67
Economic development	4,800	4,800	4,800	0.6	4	10
Total current	715,375	738,659	710,293	85.1	584	638
Capital outlay	236,980	122,494	124,770	14.9	103	68
Transfers out	8,325	400	300	-	-	-
Total expenditures and transfers	$ 960,680	$ 861,553	$ 835,363	100.0 %	$ 687	$ 706

The above chart compares the amount your City spends per capita, in comparison to a peer group. The peer group average is compiled from financial information requested from the Office of the State Auditor. Different peer group averages are used for cities of the 4th class (population less than 2,500) has been developed for comparison purposes).

General Fund Expenditures and Transfers 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	Fund Balances December 31, 2014	Fund Balances December 31, 2013	Increase (Decrease)
Nonmajor			
Rural Fire	$ 80,672	$ 62,281	$ 18,391
2010 Flood	2,319	2,319	-
TIF District 1-1 Homestake Subdivision	(111,298)	(64,014)	(47,284)
Total	$ (28,307)	$ 586	$ (28,893)

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 project fund

- Investment earnings

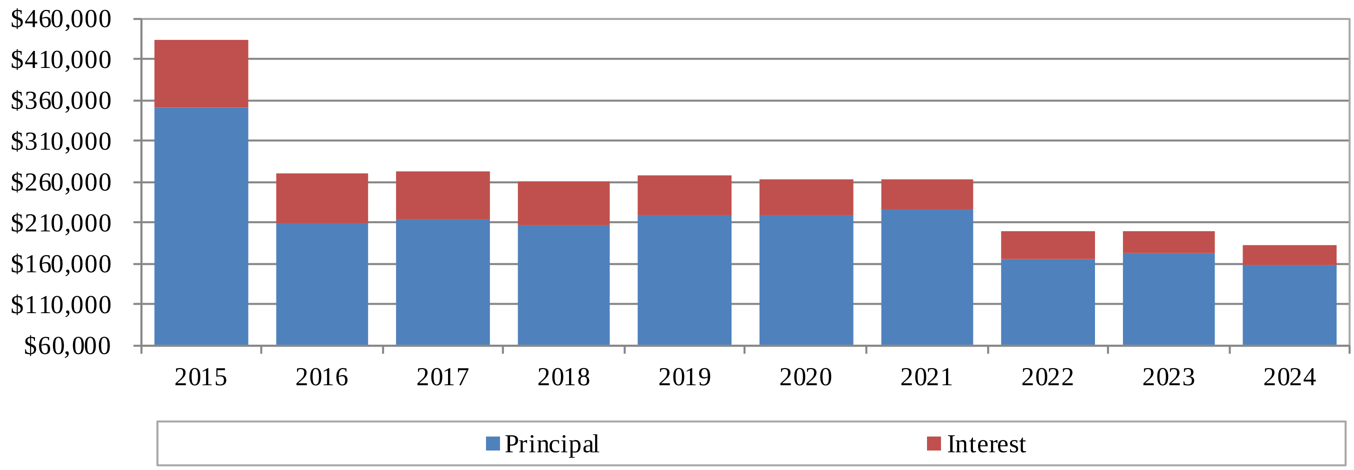
- State or Federal grants

- 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
G.O. Special Assessment Bonds				
2009 G.O. Refunding/2010 G.O. Improvement	$ -	$ 85,074	$ 574,000	02/01/26
2007 G.O. Improvement/2012 G.O. Refunding	171,728	422,231	545,000	02/01/24
2014A G.O. Improvement	53,970	360,197	1,655,000	12/01/29
Total All Debt Service Funds	$ 225,698	$ 867,502	$ 2,774,000	
Future Interest on Debt			$ 528,434	

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



In 2015, 2007 G.O. Improvement bonds will be retired by the 2012 G.O. Refunding escrow funds, contributing to the higher debt service retirements next year.

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.

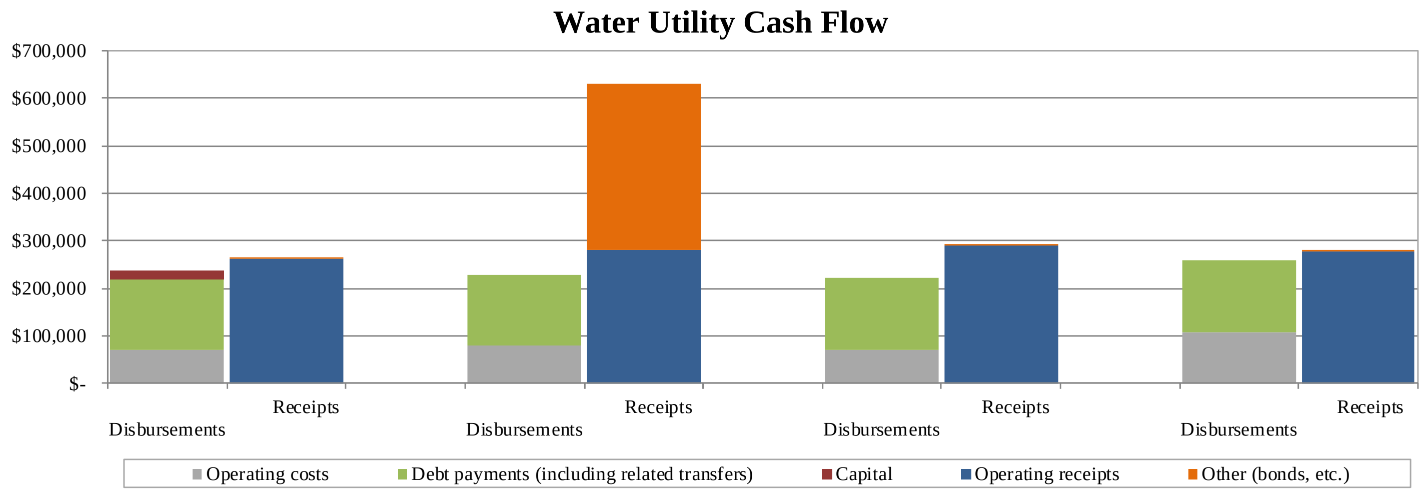
Fund	Fund Balances December 31 2014	Fund Balances December 31 2013	Increase (Decrease)
Nonmajor			
Capital Improvement	$ 53,843	$ 47,920	$ 5,923
Oddfellows Building	545	554	(9)
Major			
2014 Street Reconstruction	467,072	-	467,072
Total	$ 521,460	$ 48,474	$ 472,986

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

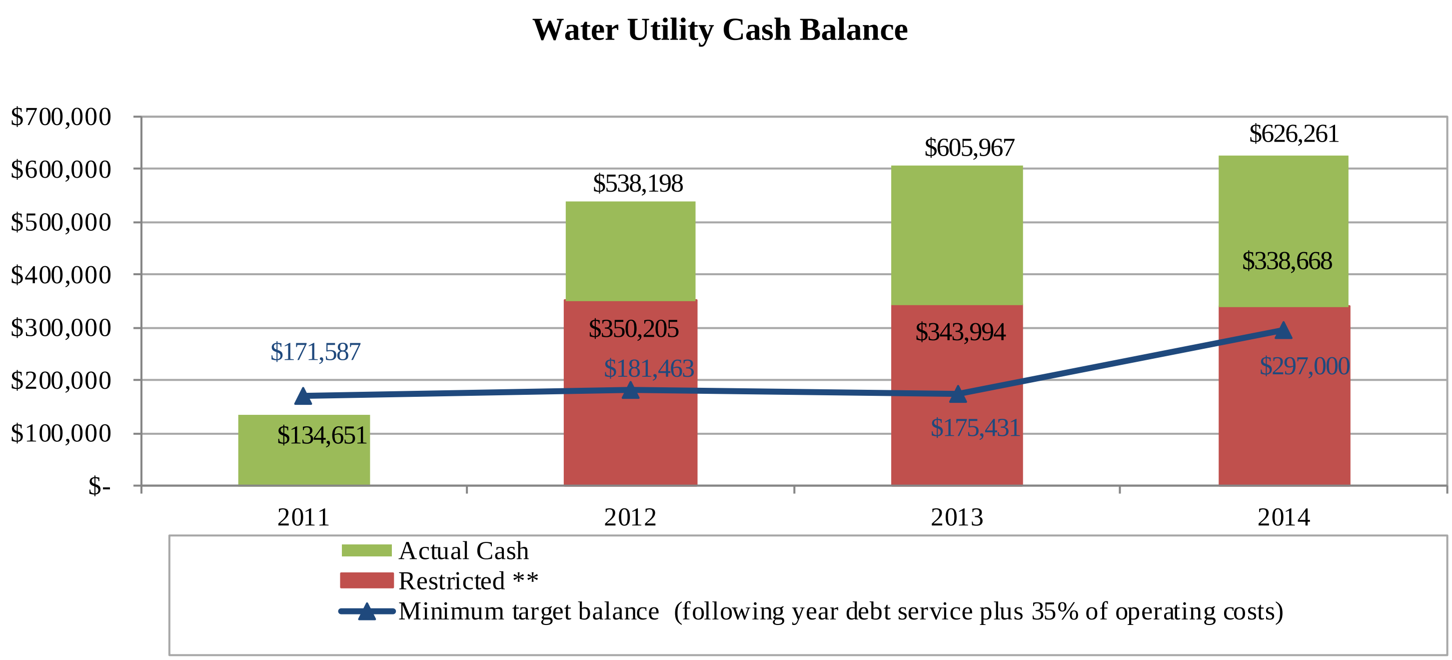
Enterprise Funds

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.

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



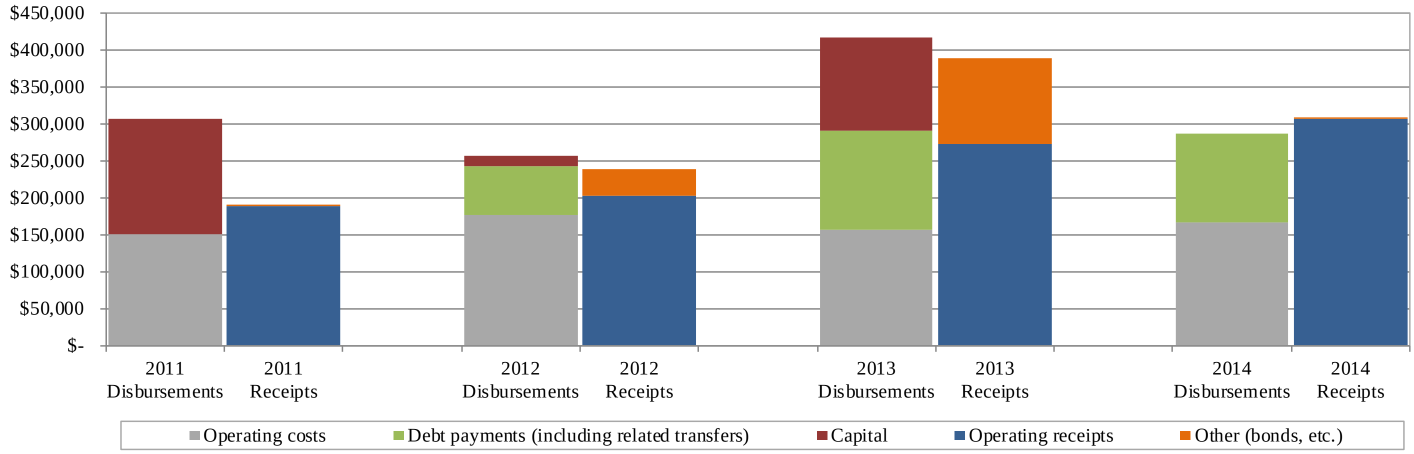
Capital disbursements in 2012 are presented net of bond proceeds for comparability purposes.



The minimum target cash balance is based on 35 percent of the operating costs.

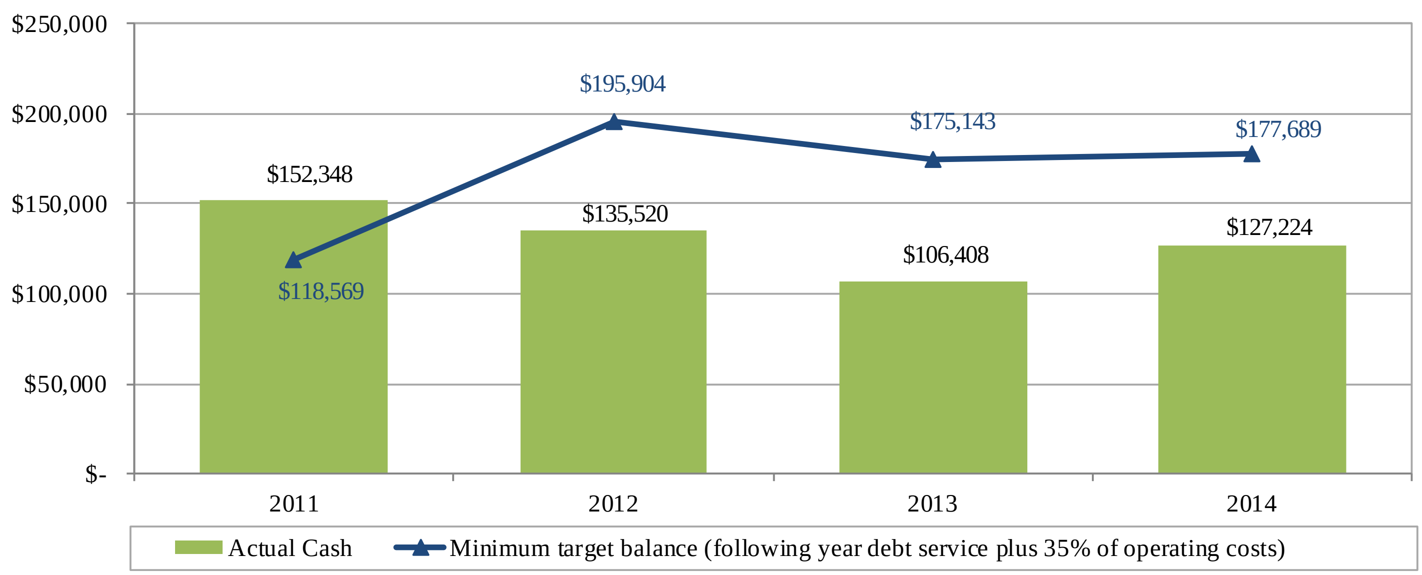
	2011	2012	2013	2014
Bonds payable	$ 1,323,022	$ 1,579,522	$ 1,473,522	$ 1,365,522

Sewer Utility Cash Flow



Capital disbursements in 2013 are presented net of bond proceeds for annual comparability purposes.

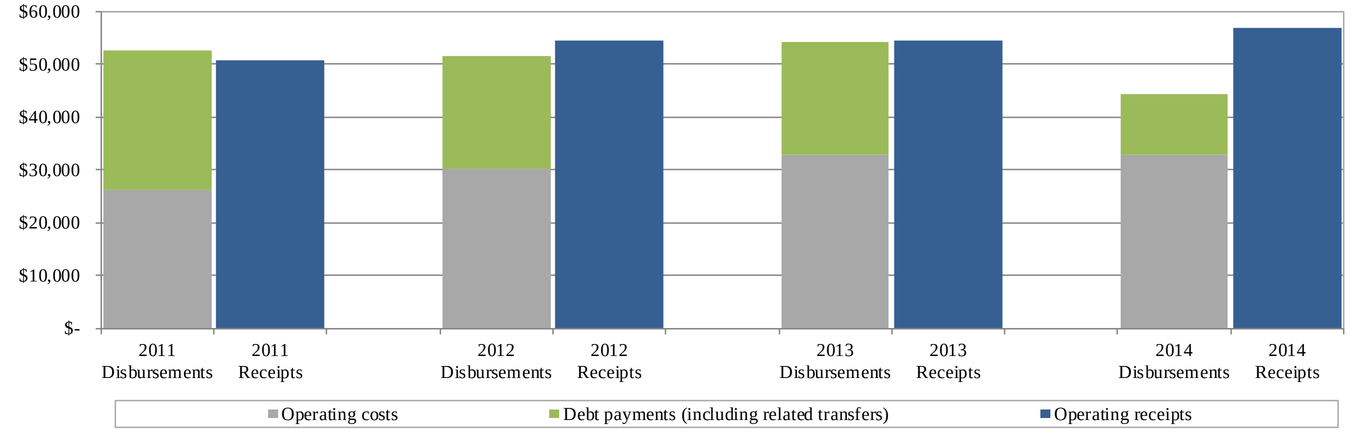
Sewer Utility Cash Balance



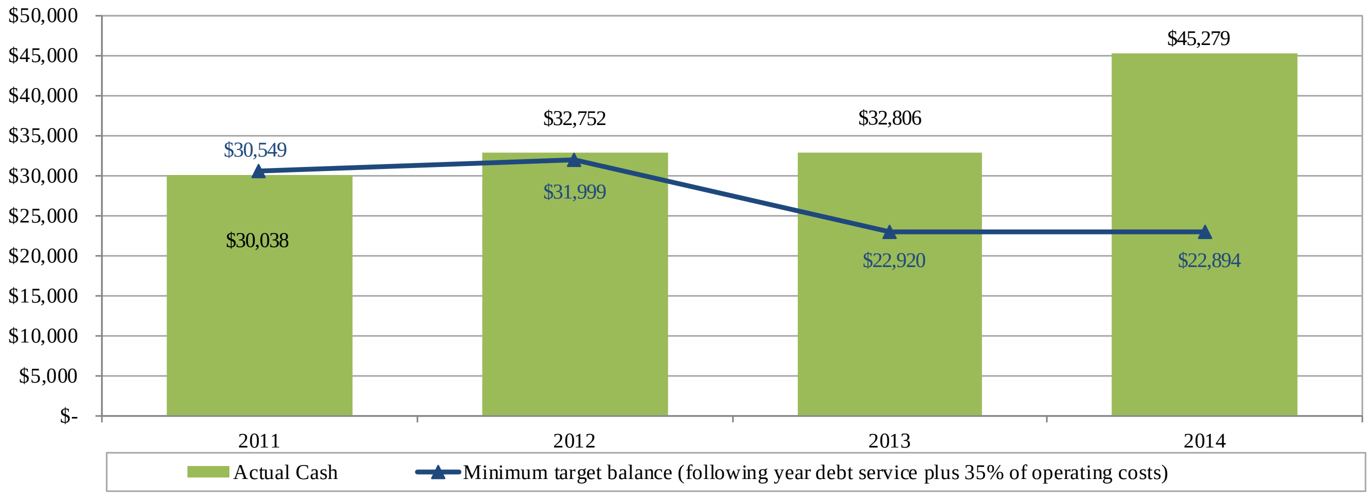
The minimum target cash balance is based on 35 percent of the operating costs. 2014 was the first time in the past four years operating receipts were sufficient to cover operating costs and debt payments. Increases in sewer rates over the last two years have helped with the deficit. However, we recommend ongoing cash flow projections to be created to determine if rate and tax levies are sufficient to cover operating costs, debt payments, repairs and future replacement/expansion.

	2011	2012	2013	2014
Bonds payable	$ 482,739	$ 2,058,207	$ 1,967,893	$ 1,866,999

Cedar Pointe Housing Cash Flow



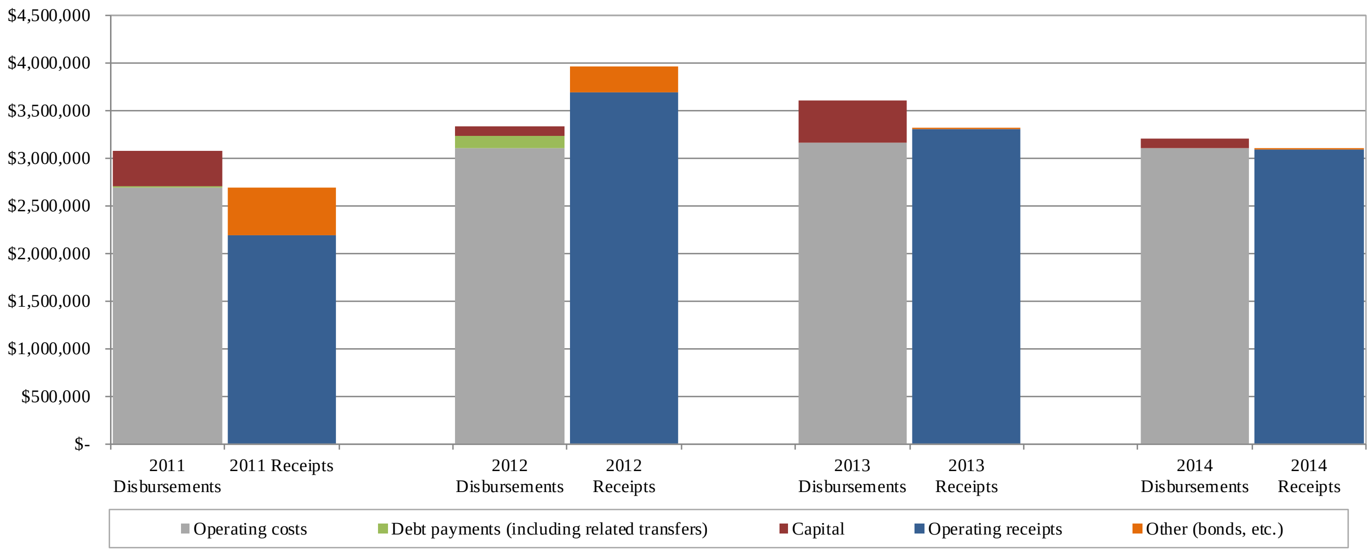
Cedar Pointe Housing Cash Balance



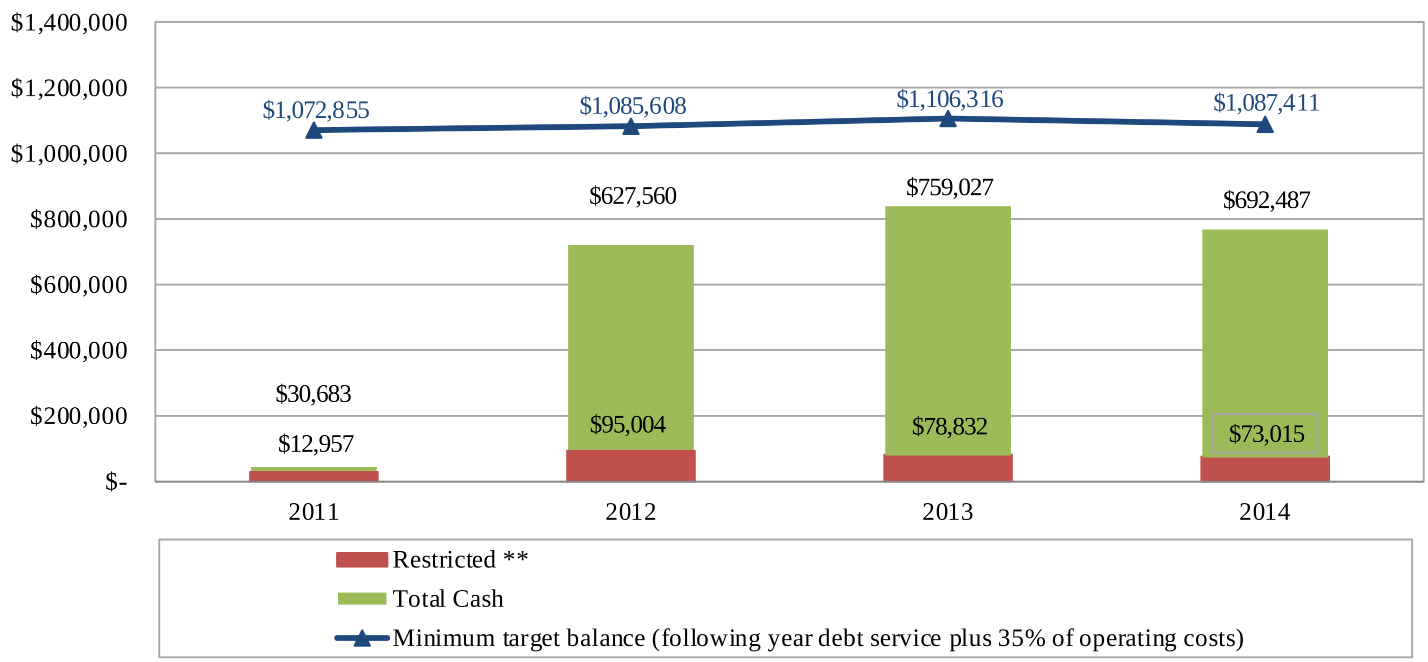
The Cedar Pointe Housing for 2014 had a positive cash flow from operations of $12,473 which was used to pay down their current debt.

	2011	2012	2013	2014
Notes payable	$ 388,579	$ 372,557	$ 355,679	$ 348,378

New Richland Care Center Cash Flow



New Richland Care Center Cash Balance



People + Process. Going Beyond the Numbers

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. We have compiled peer group from information that we have required from the Office of the State Auditor and then compiled data for Cities of the 4th class with populations below 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.

			Year			
Ratio	Calculation	Source	2011	2012	2013	2014
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	120%	132%	137%	117%
			89%	*90%*	*99%*	*N/A*
Debt per capita	Bonded debt/population	Government-wide	$ 2,534	$ 4,091	$ 3,843	$ 4,936
			$ 3,647	*$ 3,207*	*3,309*	*N/A*
Taxes per capita	Tax revenues/population	Government-wide	$ 224	$ 276	$ 304	$ 315
			$ 412	*$ 444*	*466*	*N/A*
Current expenditures per capita	Governmental fund expenditures/ population	Governmental funds	$ 828	$ 617	$ 630	$ 605
			$ 891	*$ 849*	*805*	*N/A*
Capital expenditures per capita	Governmental fund expenditures/ population	Governmental funds	$ 175	$ 249	$ 261	$ 1,034
			$ 238	*$ 310*	*293*	*N/A*
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	56%	54%	62%	70%
			59%	*57%*	*57%*	*N/A*
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	49%	58%	55%	54%
			62%	*61%*	*59%*	*N/A*

Represents City of New Richland
Represents Peer Group

People + Process
Going Beyond the Numbers

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.

Future Accounting Standard Changes - Continued

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

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

How the Changes in This Statement Will Improve Financial Reporting

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

[1] *Note*. From GASB Pronouncements Summaries. Copyright 2014 by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is reproduced with permission.

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

The comments and recommendation in this report are purely constructive in nature, and should be read in this context. 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.

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

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
February 27, 2015