Management Report

for

City of Saint Peter, Minnesota

December 31, 2017

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To the City Council and Management
City of Saint Peter, Minnesota

We have prepared this management report in conjunction with our audit of the City of Saint Peter, Minnesota's (the City) financial statements for the year ended December 31, 2017. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Debt Service
- Government-Wide Financial Statements
- Legislative Updates
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to city finances in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 25, 2018

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charged with governance of the City.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (*UNIFORM GUIDANCE*)*

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 as of and for the year ended December 31, 2017, and the related notes to basic financial statements. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

AUDITOR'S RESPONSIBILITY FOR COMPONENT UNITS

Our responsibility is to express opinions on the City's financial statements based on our audit. We did not audit the discretely presented component units' financial statements. This includes the financial statements of the River's Edge Hospital and Clinic and the financial statements of the Housing and Redevelopment Authority. Those statements were audited by other auditors whose reports have been furnished to us. Our opinion on the basic financial statements, insofar as it relates to the amounts included for these organizations as component units of the City, is based solely on the reports of the other auditors.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2017:

- We issued the following opinions on the City's basic financial statements:

Opinion Unit	Type of Opinion
Governmental activities	Qualified
Business-type activities	Unmodified
Discretely presented component units	Unmodified
General Fund	Unmodified
Capital Projects – Permanent Improvement Fund	Unmodified
Each major enterprise fund	Unmodified
Aggregate remaining fund information	Unmodified

Basis for Qualified Opinion on Governmental Activities

Management has not adopted the standards for pension plans within Governmental Accounting Standards Board (GASB) Statement No. 68 related to the Saint Peter Fire Relief Association Pension Plan. Accounting principles generally accepted in the United States of America require the reporting of a net pension liability related to the plan, which would change the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and expenses of the governmental activities of the City. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and expenses of the governmental activities, has not been determined.

- We reported one finding related to our testing of internal controls over financial reporting:

    1. We reported that due to the small number of office staff, the City has a limited segregation of duties in several areas, which we consider a significant deficiency in internal controls. This finding is further described in the Schedule of Findings and Questioned Costs as item 2017-001.

- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.

- The results of our tests indicate that the City has complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.

- We reported one deficiency in the City's internal controls over compliance that we considered to be a significant deficiency, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs:

    1. During our audit, we noted that the City did not have documented written controls to ensure compliance with Uniform Guidance cash management, allowable costs, and procurement standards. This finding is further described in the Schedule of Findings and Questioned Costs as item 2017-002.

- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As part of our audit of the City's financial statements for the year ended December 31, 2017, we performed procedures to follow-up on the findings and recommendations that resulted from our prior year audit. We reported the following findings that were corrected by the City in the current year:

- Minnesota Statutes require cities to obtain performance and payment bonds from contractors when contracting services with a value exceeding $100,000. For one contract awarded in the prior year, the City did not receive performance or payment bonds from the contractor. No similar findings were noted in the current year.

- Minnesota Statutes require two weeks published notice of the request for bids in the City's official newspaper. For one of the two bids selected for testing in the prior year, the City was unable to provide documentation that the bid advertisement was published as required. No similar findings were noted in the current year.

General Comments and Recommendations

Written Procurement Procedures for Uniform Guidance

When the new Uniform Guidance (UG) requirements for federal programs were approved, the U.S. Office of Management and Budget (OMB) offered an option to delay implementation of the general procurement standards portion of the UG for a two-year grace period, which effectively ended on December 31, 2016. On May 17, 2017, the OMB amended the UG to extend the available grace period for an additional year, which would have exempted the City through the fiscal year ending December 31, 2017. Cities were required to document their decision to use the previous OMB procurement standards during the extension period if they chose to delay implementation of the new standards.

We recommend the City begin the process of documenting its UG-compliant procurement procedures. The UG requires the City to have written procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in 2 CFR 200.318. Cities are also required to have written standards of conduct that cover conflicts of interest and govern the performance of their employees engaged in the selection, award, and administration of contracts. The City should review the UG to obtain a better understanding of the procurement standards and identify any needed policy and procedure changes.

Significant Accounting Policies

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 of the notes to basic financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2017; however, the City implemented the following governmental accounting standards during the fiscal year:

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* which enhanced disclosures regarding investments.
- GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73,* which addressed certain issues related to pension reporting and disclosures.

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 and Management Judgments

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

- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.

- **Self-Insurance Reserves** – Management's estimates of costs for unreported claims are based on the past history of claims reported.

- **Compensated Absences** – Management's estimate based on current rates of pay and sick leave balances.

- **Net Pension Liability** – The City has recorded a liability and activity for pension benefits. This obligation is calculated using actuarial methodologies described in GASB Statement No. 68. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

- **Allowance for Doubtful Accounts** – Management's estimate of the allowance for doubtful accounts is based on historical water and sewer revenues, historical loss levels, and an analysis of the collectability of individual accounts.

We evaluated the key factors and assumptions used by management to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

We proposed two uncorrected audit adjustments to the financial statements. The adjustments are as follows:

- Net other post-employment benefit (OPEB) liability of $33,941.

- Federal Insurance Contributions Act liability on the related compensated absences liability of $57,645.

Management has determined that the effects of the uncorrected adjustments are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter date June 25, 2018.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

OTHER 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

We applied certain limited procedures to the management's discussion and analysis (MD&A) and the pension-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplemental information accompanying the financial statements and the separately issued Schedule of Expenditures of Federal Awards, which are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and other information sections which, accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance and the sufficiency of each governmental fund's current assets to finance its current liabilities.

PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. For the 2016 fiscal year, local ad valorem property tax levies provided 39.8 percent of the total governmental fund revenues for cities over 2,500 in population, and 36.4 percent for cities under 2,500 in population.

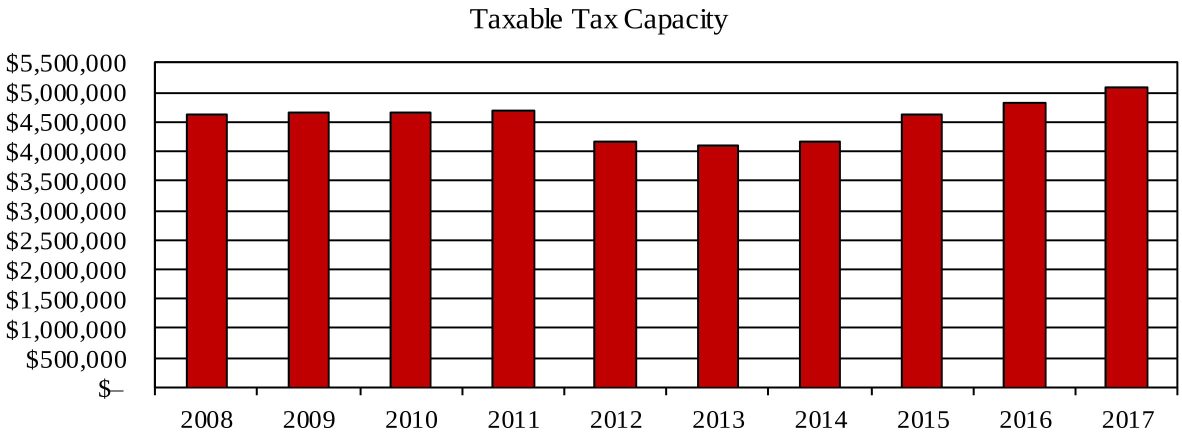
The total market value of property in Minnesota cities increased about 5.6 percent for the 2017 levy year, which followed an increase of 5.7 percent for levy year 2016. The market values used for levying property taxes are based on the previous fiscal year (e.g., market values for taxes levied in 2017 were based on assessed values as of January 1, 2016), so the trend of change in these market values lags somewhat behind the housing market and economy in general.

The City's taxable market value increased 3.4 percent for taxes payable in 2016 and increased 4.9 percent for taxes payable in 2017. The following graph shows the City's changes in taxable market value over the past 10 years:

The data in this graph does not include the drop in market value as a result of the legislative changes to the Market Value Homestead Credit (MVHC) program in fiscal 2012.

Tax capacity is considered the actual base available for taxation. It is calculated by applying the state's property classification system to each property's market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city's total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of its tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates. The City's tax capacity increased 4.2 percent and 5.2 percent for taxes payable in 2016 and 2017, respectively.

The following graph shows the City's change in tax capacities over the past 10 years:



Some of the increase in the taxable tax capacity in 2015 is related to the decertification of tax increments by the City.

The significant drop in taxable tax capacity is the result of the legislative change to the MVHC Program in fiscal 2012.

The following table presents the average tax rates applied to city residents for each of the last three levy years, along with comparative state-wide average rates from the two most recent years for which the information is available:

Rates Expressed as a Percentage of Net Tax Capacity

	All Cities State-Wide		City of Saint Peter		
	2015	2016	2015	2016	2017
Average tax rate					
City	46.9	46.5	46.8	47.3	49.1
County	44.7	44.1	49.4	52.6	52.6
School	27.1	27.5	17.0	36.6	38.2
Special taxing	6.9	6.9	0.5	0.5	0.5
Total	125.6	125.0	113.7	137.0	140.4

Note: State-wide average tax rates are not available for 2017.

The City's portion of the average property tax rate for city residents was similar to state-wide averages in 2016.

GOVERNMENTAL FUNDS REVENUE

The following table presents the per capita revenue of the City's governmental funds for the past three years, along with state-wide averages.

We have included the most recent comparative state-wide averages available from the Office of the State Auditor to provide a benchmark for interpreting the City's data. The amounts received from the typical major sources of governmental fund revenue will naturally vary between cities based on factors such as a city's stage of development, location, size and density of its population, property values, services it provides, and other attributes. It will also differ from year-to-year due to the effect of inflation and changes in its operation. Also, certain data in these tables may be classified differently than how they appear in the City's financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of the City. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the MD&A. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates.

Governmental Funds Revenue per Capita
With State-Wide Averages by Population Class

	State-Wide			City of Saint Peter		
Year	December 31, 2016			2015	2016	2017
Population	2,500–10,000	10,000–20,000	20,000–100,000	11,784	11,807	11,807
Property taxes	$ 460	$ 432	$ 455	$ 186	$ 194	$ 217
Tax increments	26	26	42	59	61	59
Franchise and other taxes	35	43	45	12	12	12
Special assessments	59	44	59	3	3	16
Licenses and permits	35	33	42	21	36	24
Intergovernmental revenues	313	275	152	324	353	419
Charges for services	110	92	103	40	46	43
Other	91	57	54	92	112	124
Total revenue	$ 1,129	$ 1,002	$ 952	$ 735	$ 817	$ 914

The City's lower than average tax revenue is primarily the result of the City relying on enterprise fund activities to finance the City's activities. This is due to the large amount of nontaxable property within the City.

In 2017, governmental funds revenue per capita increased $97 per capita. The largest increase was in intergovernmental revenues, which increased mainly as a result of a one-time grant received in 2017.

It is important to note that this table does not include operating transfers, which are used by the City to support governmental fund activities. This information is not included in the table as the comparable information is not available.

GOVERNMENTAL FUNDS EXPENDITURES

The expenditures of governmental funds will also vary from state-wide averages and from year-to-year, based on the City's circumstances. Expenditures are classified into three types as follows:

- **Current** – These are typically the general operating type expenditures occurring on an annual basis, and are primarily funded by general sources such as taxes and intergovernmental revenues.

- **Capital Outlay and Construction** – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, and are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.

- **Debt Service** – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources, such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

The City's expenditures per capita of its governmental funds for the past three years, together with state-wide averages, are presented in the following table:

Governmental Funds Expenditures per Capita
With State-Wide Averages by Population Class

	State-Wide			City of Saint Peter		
Year	December 31, 2016			2015	2016	2017
Population	2,500–10,000	10,000–20,000	20,000–100,000	11,784	11,807	11,807
Current						
General government	$ 145	$ 114	$ 97	$ 111	$ 110	$ 116
Public safety	263	250	273	222	234	255
Street maintenance and lighting	126	123	95	109	117	115
Parks and recreation	93	109	95	135	139	153
All other	74	77	91	107	90	48
Total current	$ 701	$ 673	$ 651	$ 684	$ 690	$ 687
Capital outlay and construction	$ 381	$ 370	$ 301	$ 51	$ 486	$ 331
Debt service						
Principal	$ 196	$ 163	$ 115	$ 116	$ 121	$ 117
Interest and fiscal	48	38	34	28	25	27
Total debt service	$ 244	$ 201	$ 149	$ 144	$ 146	$ 144

The City's current governmental funds current per capita expenditures decreased by $3 per capita in fiscal 2017. Capital outlay and construction expenditures decreased by $155 per capita from the previous year.

GOVERNMENTAL FUND BALANCES

The following table summarizes the changes in the fund balances of the City's governmental funds during the year ended December 31, 2017, presented both by fund balance classification and by fund:

Governmental Funds Change in Fund Balance

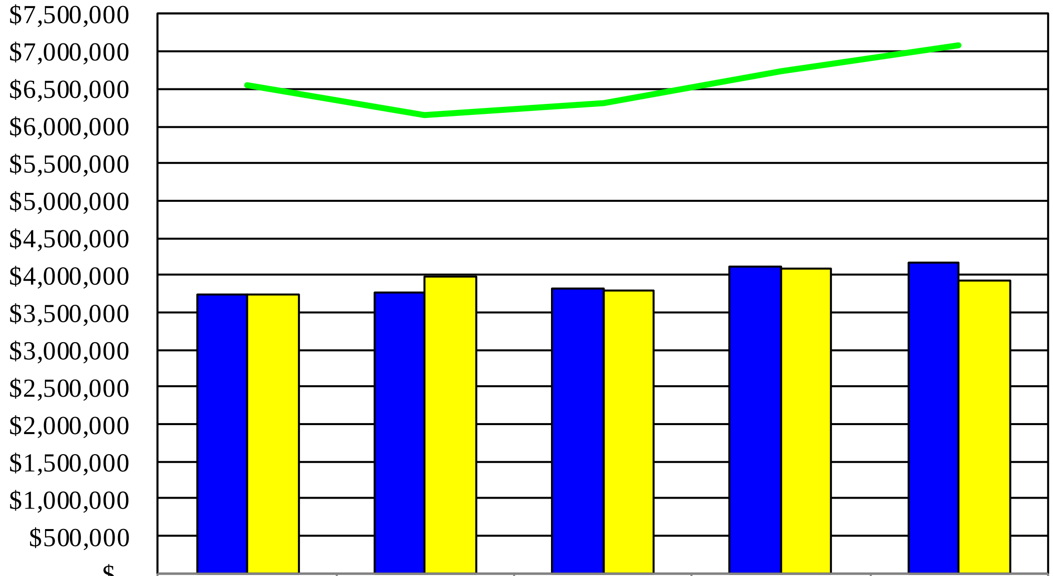
	Fund Balance as of December 31, 2016	Fund Balance as of December 31, 2017	Increase (Decrease)
Fund balances of governmental funds			
Total by classification			
Nonspendable	$ 17,625	$ 1,910	$ (15,715)
Restricted	4,467,374	3,639,340	(828,034)
Committed	1,076,717	817,188	(259,529)
Assigned	449,041	235,804	(213,237)
Unassigned	2,519,558	2,891,608	372,050
Total governmental funds	$ 8,530,315	$ 7,585,850	$ (944,465)
Total by fund			
General	$ 4,103,391	$ 4,173,342	$ 69,951
Capital Projects – Permanent Improvement	1,475,888	701,715	(774,173)
Nonmajor	2,951,036	2,710,793	(240,243)
Total governmental funds	$ 8,530,315	$ 7,585,850	$ (944,465)

In total, the fund balances of the City's governmental funds decreased by $944,465 during the year ended December 31, 2017. The majority of this decrease was in the Capital Projects – Permanent Improvement Fund totaling $774,173, due to street reconstruction costs incurred in 2017.

GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, street and highway maintenance, parks and recreation, and economic development. The graph below illustrates the change in the General Fund financial position over the last five years. We have also included a line representing annual expenditures to reflect the change in the size of the General Fund operation over the same period.

General Fund Financial Position
Year Ended December 31,



	2013	2014	2015	2016	2017
Fund Balance	$3,746,297	$3,775,595	$3,824,821	$4,103,391	$4,173,342
Net Cash Balance	$3,731,502	$3,982,254	$3,794,828	$4,089,794	$3,927,763
Expenditures	$6,546,358	$6,149,467	$6,313,124	$6,737,933	$7,088,453

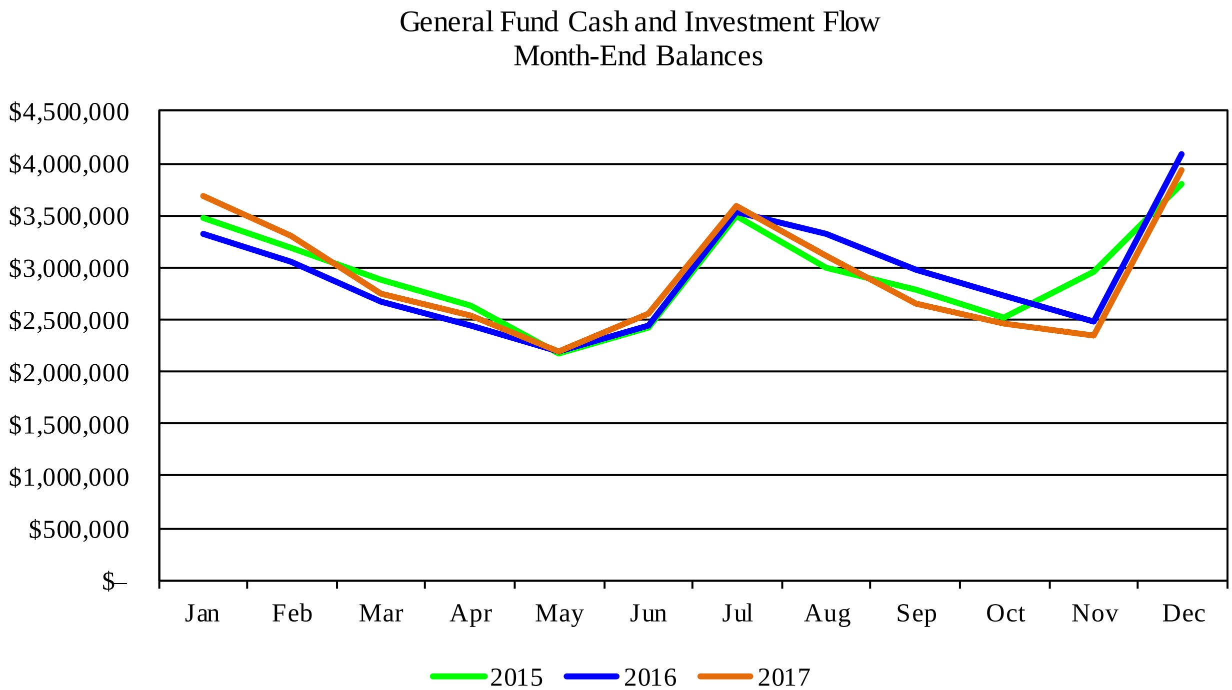
The City's General Fund cash and investment balance decreased slightly in the current year. The total fund balance at December 31, 2017 was $4,173,342, an increase of $69,951, which was more than the budgeted decrease of $276,723.

As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and is a factor in determining the City's bond rating and resulting interest costs. Maintaining an adequate fund balance has become increasingly important given the fluctuations in state funding for cities in recent years.

The City Council has formally adopted a fund balance policy regarding the fund balance for the General Fund. The policy establishes that the City will strive to maintain an unassigned fund balance in the General Fund in the range of 35.0–50.0 percent of the following year's budgeted expenditures. At December 31, 2017, the unassigned fund balance of the General Fund was 52.3 percent of the subsequent year's budgeted expenditures.

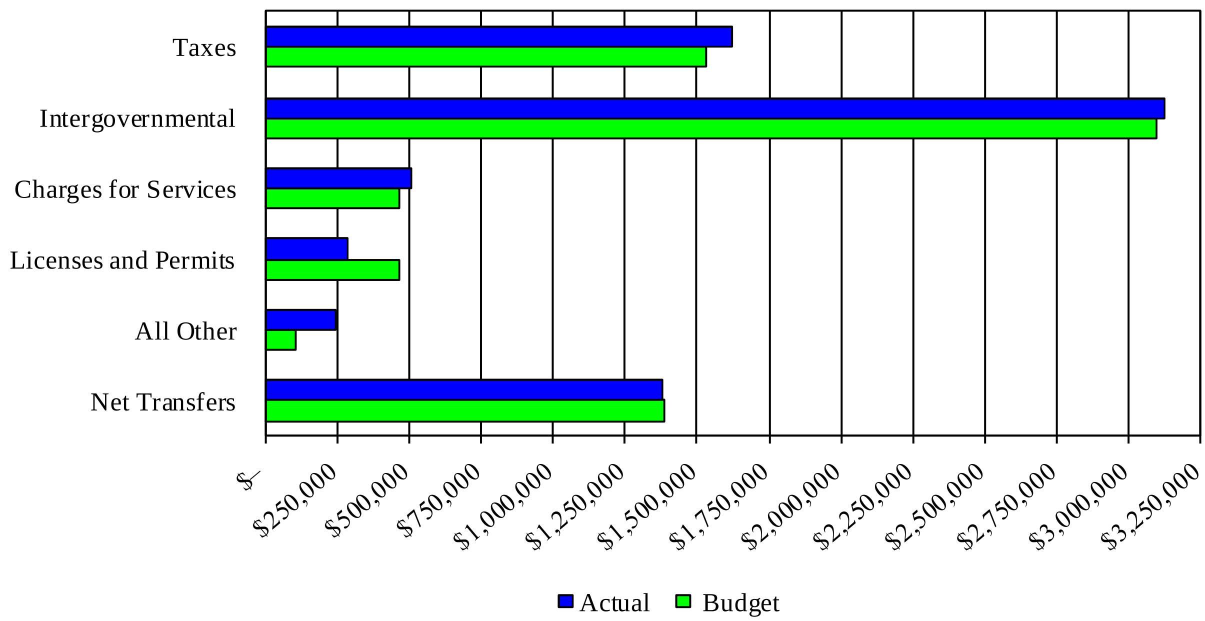
A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year other than the impact of seasonal services such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Taxes and state aids comprise almost 82 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City in July and the rest in December. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

The following graph illustrates the monthly cash flow of the General Fund in recent years (excluding interfund borrowing). Adequate fund balances in the General Fund have provided for positive month-end balances for all three years presented.



The following graph reflects the City's General Fund revenues and net transfers, budget and actual, for 2017:

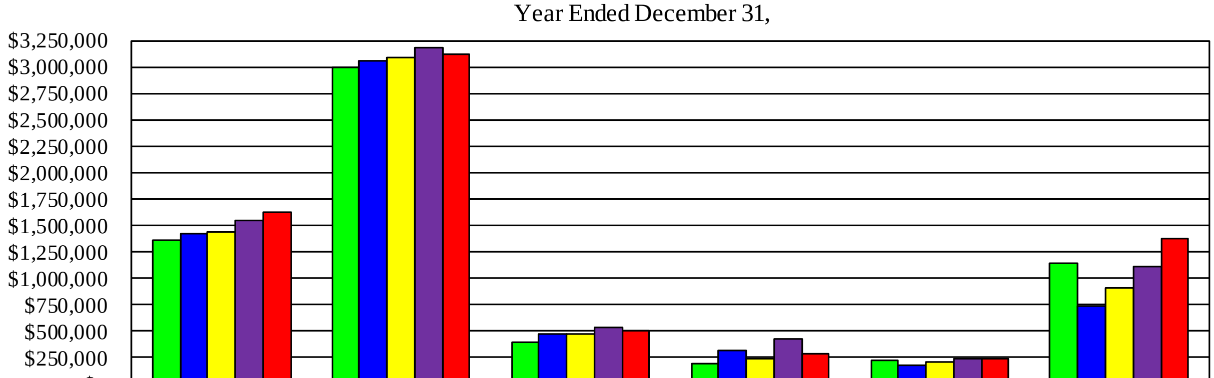
General Fund Revenue
Budget and Actual



Total General Fund revenues and net transfers in 2017 were $7,158,404, which was $104,052 more than the final budget. Some of this variance is in licenses and permits, which was under budget by $183,782, relating to expected building permits for projects that were delayed until after 2017. All other revenue exceeded budgeted amounts by $136,905, mainly from refunds and reimbursements. Taxes exceeded budgeted amounts by $89,178, due to better than projected collections.

The following graph presents the City's General Fund revenue sources for the last five years:

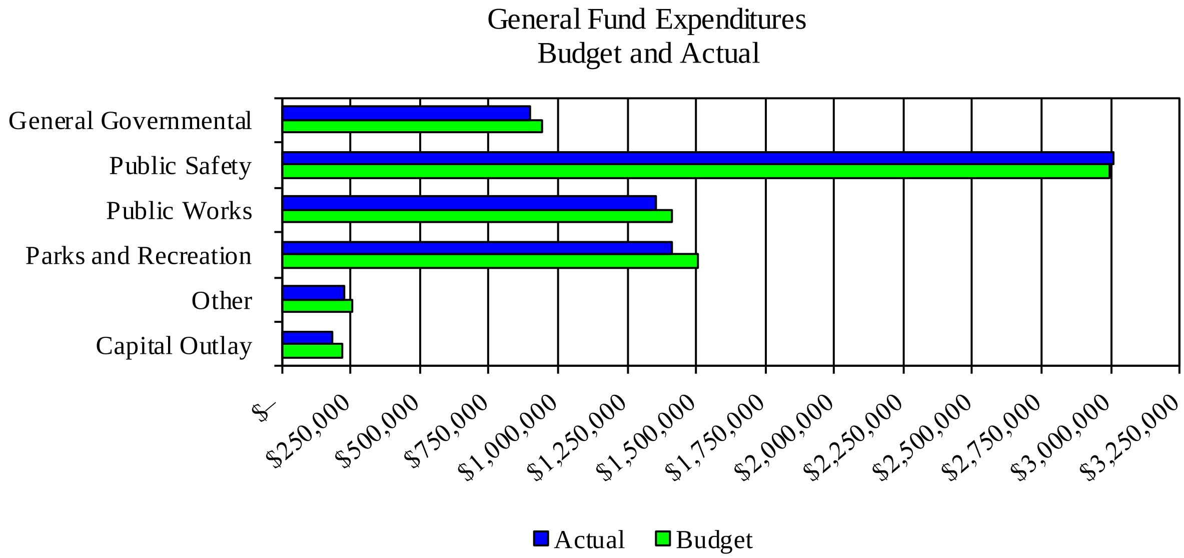
General Fund Revenue by Source
Year Ended December 31,



	Taxes	Intergovernmental	Charges for Services	Licenses and Permits	All Other	Net Transfers
2013	$1,364,783	$2,996,269	$398,820	$191,505	$230,809	$1,146,706
2014	$1,420,809	$3,054,414	$467,977	$316,846	$181,196	$737,523
2015	$1,434,939	$3,088,098	$469,790	$244,557	$212,568	$912,398
2016	$1,540,462	$3,176,714	$539,878	$423,760	$232,181	$1,103,508
2017	$1,622,592	$3,124,235	$505,815	$283,358	$240,607	$1,381,797

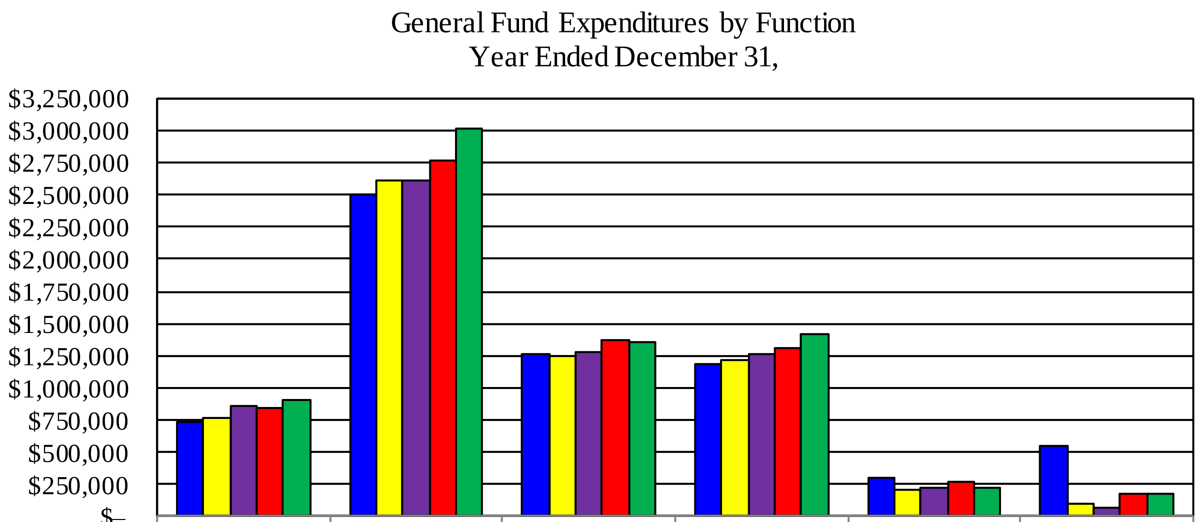
Revenues and net transfers for the year ended December 31, 2017 increased by $141,901, which was mainly the result of an increase in net transfers received from the City's enterprise funds. Due to the large amount of tax exempt property in the City, the City has historically relied heavily on intergovernmental revenue (mainly state aid) and transfers from its enterprise funds to help support General Fund operations.

The following graph provides the components of the City's General Fund spending for 2017 compared to budget:



Total General Fund expenditures for 2017 were $7,088,453, which was $242,622 less than budget. Most functions were under budget in the current year.

The following graph presents the components of the City's General Fund spending for the past five years:



	General Governmental	Public Safety	Public Works	Parks and Recreation	Other	Capital Outlay
2013	$741,971	$2,496,385	$1,259,768	$1,183,925	$307,035	$557,274
2014	$764,766	$2,611,444	$1,246,956	$1,222,334	$208,982	$94,985
2015	$865,083	$2,619,901	$1,284,150	$1,258,730	$221,580	$63,680
2016	$846,187	$2,760,271	$1,379,018	$1,305,776	$265,885	$180,796
2017	$898,784	$3,010,330	$1,352,627	$1,414,024	$229,546	$183,142

In 2017, total General Fund expenditures increased by $350,520. Public safety increased by $250,059, mainly due to wage increases and an increase in the cost of health insurance.

ENTERPRISE FUNDS OVERVIEW

The City maintains a number of enterprise funds to account for services the City provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the City's enterprise funds.

The enterprise funds comprise a considerable portion of the City's activities. These funds help to defray overhead and administrative costs and provide additional support to general government operations by way of annual transfers. We understand the City is proactive in reviewing these activities on an ongoing basis and we want to reiterate the importance of continually monitoring these operations. Over the years, we have emphasized to our city clients the importance of these utility operations being self-sustaining, preventing additional burdens on general governmental funds. This would include the accumulation of net position for future capital improvements and to provide a cushion in the event of a negative trend in operations.

ENTERPRISE FUNDS FINANCIAL POSITION

The following table summarizes the changes in the financial position of the City's enterprise funds during the years ended December 31, 2016 and 2017, presented both by classification and by fund:

Enterprise Funds Change in Financial Position

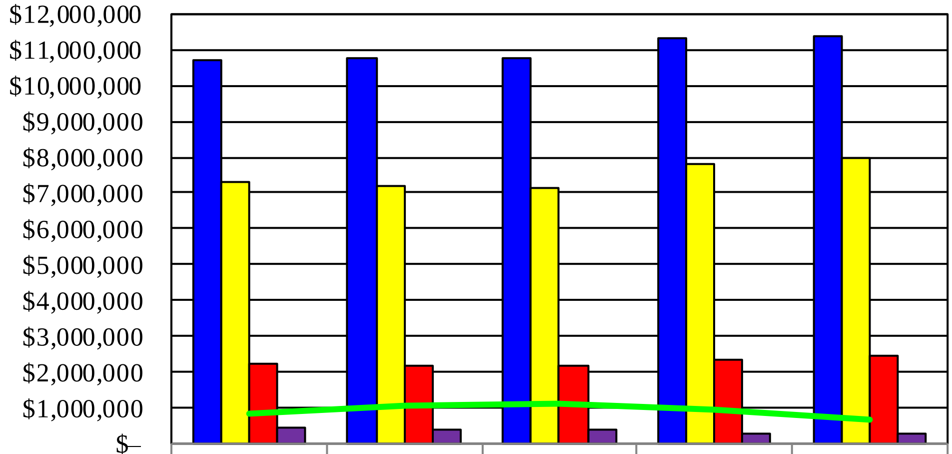
	Net Position as of December 31, 2016	Net Position as of December 31, 2017	Increase (Decrease)
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	$ 47,717,968	$ 50,190,184	$ 2,472,216
Restricted for debt service	1,168,229	1,240,464	72,235
Restricted for capital replacement	633,305	688,034	54,729
Unrestricted	3,309,927	2,124,144	(1,185,783)
Total enterprise funds	$ 52,829,429	$ 54,242,826	$ 1,413,397
Total by fund			
Electric	$ 16,603,714	$ 16,301,047	$ (302,667)
Water	8,639,396	9,407,902	768,506
Environmental Services	151,966	108,398	(43,568)
Wastewater	19,212,935	20,083,373	870,438
Heartland Transit	155,620	–	(155,620)
Storm Water	5,824,341	6,119,282	294,941
Telecommunications Conduit	201,508	187,243	(14,265)
Long-Term Care Facility	(697,749)	(646,209)	51,540
Medical Office Building	2,737,698	2,681,790	(55,908)
Total enterprise funds	$ 52,829,429	$ 54,242,826	$ 1,413,397

The increase in the net investment in capital assets and the decrease in the unrestricted net position relates to capital investments that occurred in the City's Electric Fund.

ELECTRIC FUND

The following graph presents five years of comparative data for the City's Electric Fund:

Electric Fund Operation
Year Ended December 31,



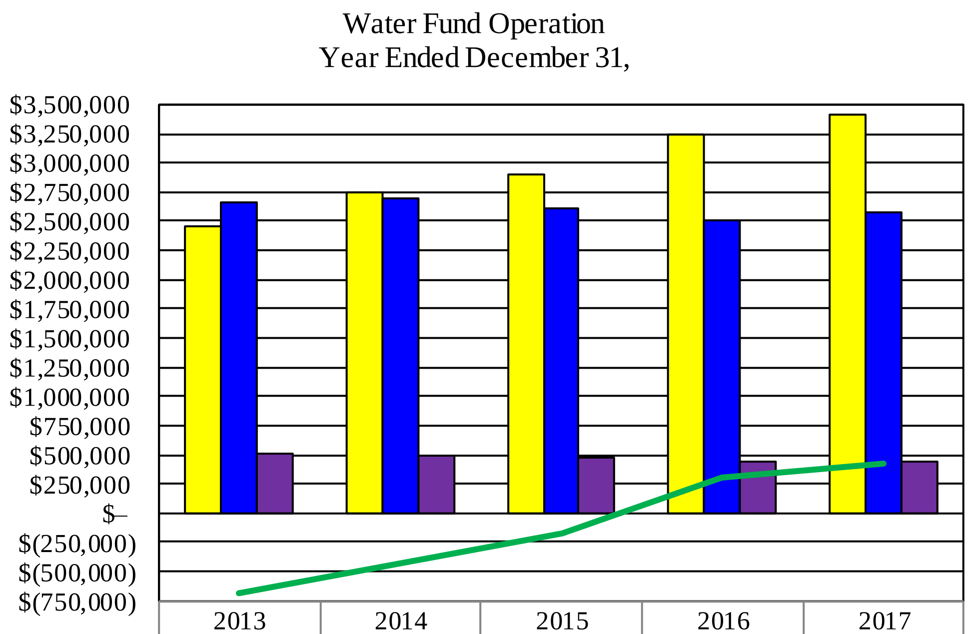
	2013	2014	2015	2016	2017
Operating Revenue	$10,726,029	$10,776,761	$10,774,242	$11,341,733	$11,362,827
Purchased Power	$7,276,105	$7,163,849	$7,136,405	$7,793,201	$7,992,040
Operating Expense	$2,223,702	$2,140,138	$2,177,580	$2,330,813	$2,433,887
Net Other Expense	$420,464	$396,635	$380,329	$286,153	$284,089
Income Before Transfers	$805,758	$1,076,139	$1,079,928	$931,566	$652,811

At December 31, 2017, the Electric Fund had a total net position of $16,301,047, of which $1,133,616 was restricted for debt service; $14,617,955 was the net investment in capital assets; and $549,476 was unrestricted. The Electric Fund ended the year with working capital of $339,898.

The Electric Fund operating revenue was $11,362,827 for 2017, an increase of $21,094 (0.2 percent). Purchased power increased $198,839, or 2.6 percent. Operating expenses (excluding purchased power) increased by $103,074 (4.4 percent) in 2017, mainly due to increases in personnel costs.

WATER FUND

The following graph presents selected data for the City's Water Fund for the past five years:



	2013	2014	2015	2016	2017
Operating Revenue	$2,464,354	$2,745,745	$2,902,935	$3,247,341	$3,419,963
Operating Expense	$2,657,623	$2,693,569	$2,606,868	$2,502,713	$2,567,831
Net Other Expense	$501,126	$487,055	$470,710	$448,346	$432,614
Income (Loss) Before Transfers	$(694,395)	$(434,879)	$(174,643)	$296,282	$419,518

At December 31, 2017, the Water Fund had a total net position of $9,407,902, of which $9,058,147 was the net investment in capital assets and $349,755 was unrestricted. The Water Fund ended the year with a deficit working capital balance of ($376,483).

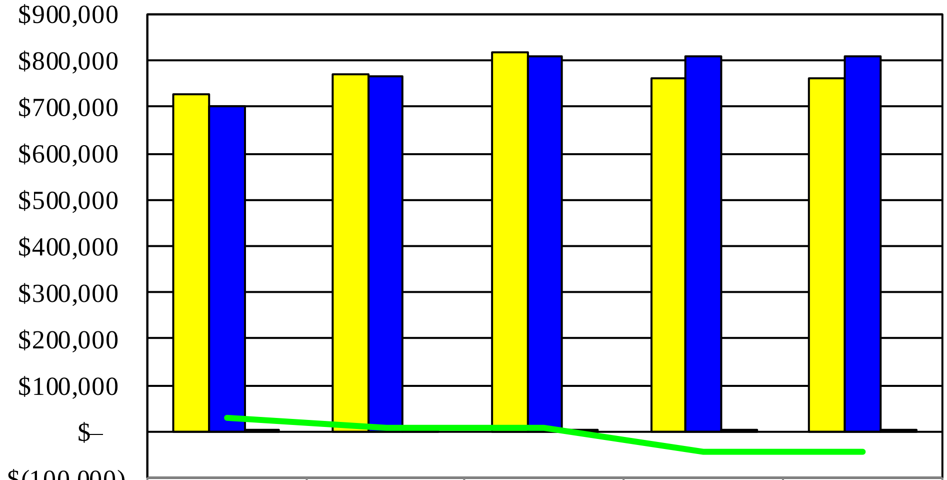
The Water Fund's operating revenue was $3,419,963 for 2017, an increase of $172,622, or 5.3 percent, which was primarily the result of an increase in consumption. Operating expenses increased by $65,118, or 2.6 percent, mainly due to an increase in depreciation on infrastructure recently placed into service.

Although this fund is in a positive financial position, we suggest that the City continue to review the water rates on an annual basis. Water rates are generally designed to cover operating costs and provide an accumulation of resources for significant repairs and replacements, and an operating cushion for potential negative years in financial operations.

ENVIRONMENTAL SERVICES FUND

The following graph presents selected data for the City's Environmental Services Fund for the past five years:

Environmental Services Fund
Year Ended December 31,



	2013	2014	2015	2016	2017
Operating Revenue	$727,614	$769,938	$815,663	$761,540	$763,613
Operating Expense	$701,516	$764,224	$810,888	$808,216	$808,861
Net Other Revenue	$1,711	$1,687	$1,755	$4,359	$1,680
Change in Net Position	$27,809	$7,401	$6,530	$(42,317)	$(43,568)

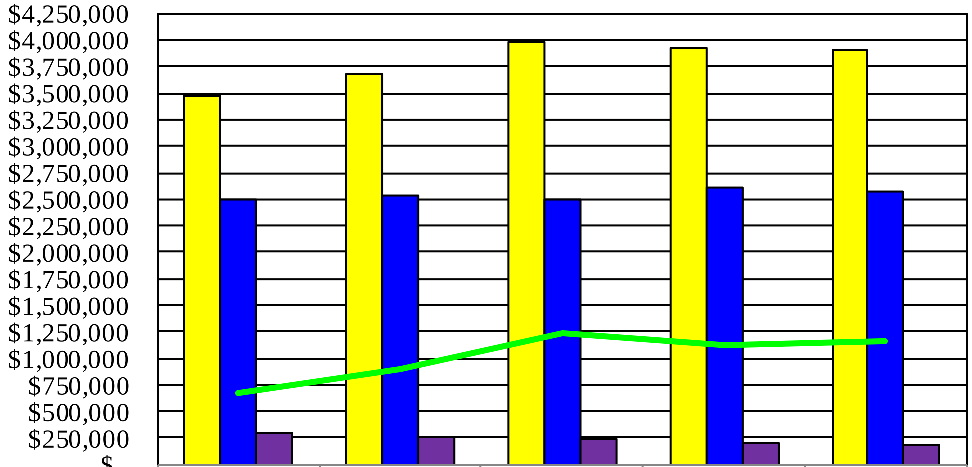
At December 31, 2017, the Environmental Services Fund had a total net position of $108,398, of which $36,646 was the net investment in capital assets and $71,752 was unrestricted. The Environmental Services Fund ended the year with working capital of $190,058.

The Environmental Services Fund operating revenue was $763,613 for 2017, an increase of $2,073 (0.3 percent). Operating expenses increased by $645 (0.1 percent) compared to the prior year.

WASTEWATER FUND

The following graph presents selected data for the City's Wastewater Fund for the past five years:

Wastewater Fund
Year Ended December 31,



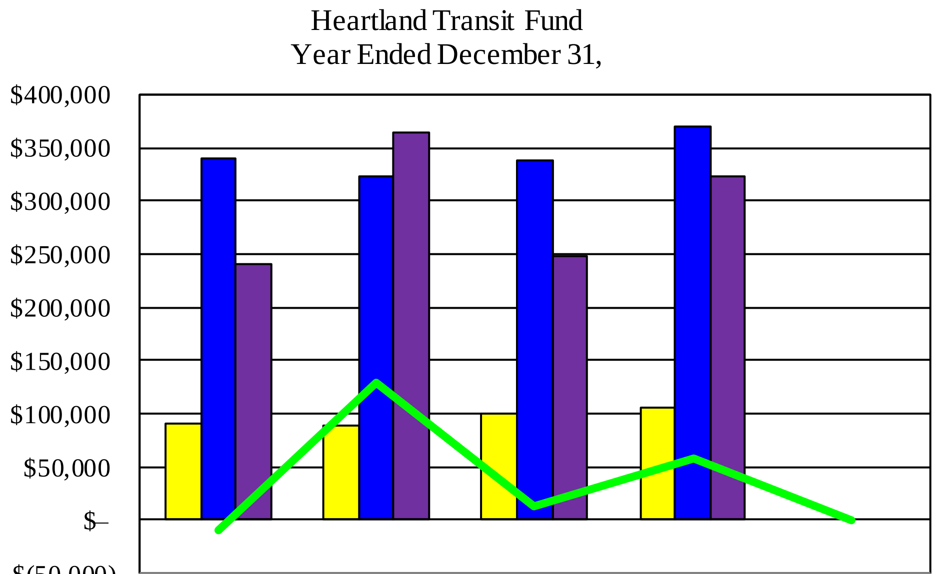
	2013	2014	2015	2016	2017
Operating Revenue	$3,473,518	$3,689,500	$3,978,265	$3,935,525	$3,904,375
Operating Expense	$2,505,529	$2,536,210	$2,492,423	$2,602,508	$2,565,811
Net Other Expense	$298,305	$260,526	$240,099	$209,625	$185,316
Income (Loss) Before Transfers	$669,684	$892,764	$1,245,743	$1,123,392	$1,153,248

At December 31, 2017, the Wastewater Fund had a total net position of $20,083,373, of which $18,679,513 was the net investment in capital assets; $688,034 was restricted; and $715,826 was unrestricted. The Wastewater Fund ended the year with a working capital balance of $456,718.

The Wastewater Fund operating revenue was $3,904,375 for 2017, a decrease of $31,150, or 0.8 percent, while operating expenses decreased $36,697, or 1.4 percent.

HEARTLAND TRANSIT FUND

The following graph presents selected data for the City's Heartland Transit Fund for the past five years:



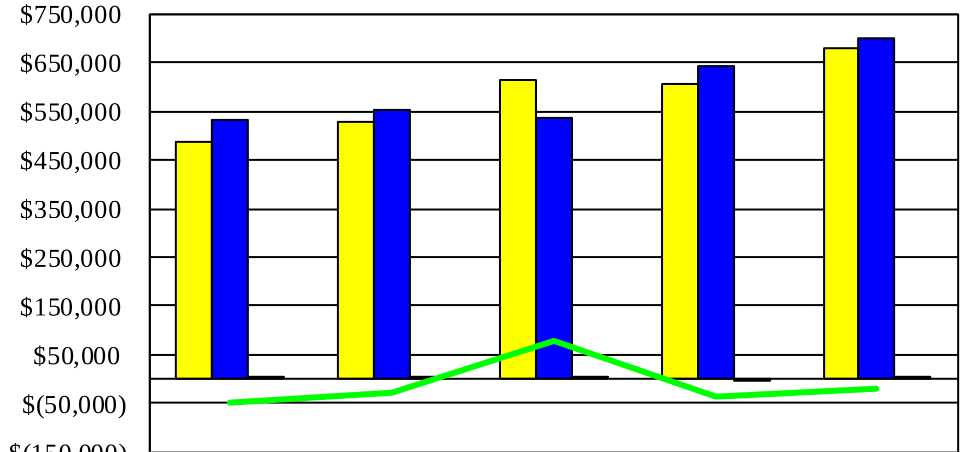
	2013	2014	2015	2016	2017
Operating Revenue	$90,601	$89,151	$100,220	$105,230	$–
Operating Expense	$340,293	$323,696	$337,148	$370,353	$–
Net Other Revenue	$240,307	$363,293	$248,882	$322,828	$–
Change in Net Position	$(9,385)	$128,748	$11,954	$57,705	$–

At December 31, 2017, the Heartland Transit Fund had a total net position of $0, as the City's transit operations were transferred to Minnesota River Valley Transit on January 1, 2017 under a joint powers agreement with the City of Le Sueur.

STORM WATER FUND

The following graph presents selected data for the City's Storm Water Fund for the past five years:

Storm Water Fund
Year Ended December 31,



	2013	2014	2015	2016	2017
Operating Revenue	$489,138	$526,528	$615,673	$605,664	$681,306
Operating Expense	$531,102	$551,279	$537,817	$643,298	$702,256
Net Other Revenue	$5,687	$2,830	$1,159	$(494)	$1,500
Income (Loss) Before Transfers	$(47,651)	$(27,581)	$76,697	$(38,128)	$(19,450)

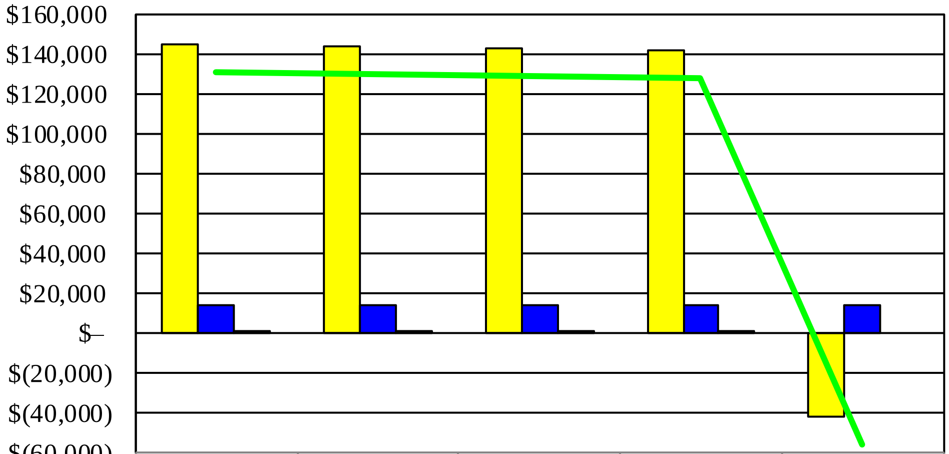
At December 31, 2017, the Storm Water Fund had a total net position of $6,119,282, of which $5,738,333 was the net investment in capital assets and $380,949 is considered unrestricted. The Storm Water Fund ended the year with working capital of $498,913.

The Storm Water Fund operating revenue was $681,306 for 2017, an increase of $75,642, or 12.5 percent, due to an increase in billable acreage from continued development. Operating expenses increased $58,958, or 9.2 percent, due to wage increases and an increase in depreciation expense related to new equipment.

TELECOMMUNICATIONS CONDUIT FUND

The following graph presents selected data for the City's Telecommunications Conduit Fund for the past five years:

Telecommunications Conduit Fund
Year Ended December 31,



	2013	2014	2015	2016	2017
Operating Revenue	$145,219	$144,071	$142,669	$142,273	$(42,280)
Operating Expense	$14,264	$14,264	$14,264	$14,264	$14,265
Net Other Revenue	$301	$381	$135	$168	$–
Income (Loss) Before Transfers	$131,256	$130,188	$128,540	$128,177	$(56,545)

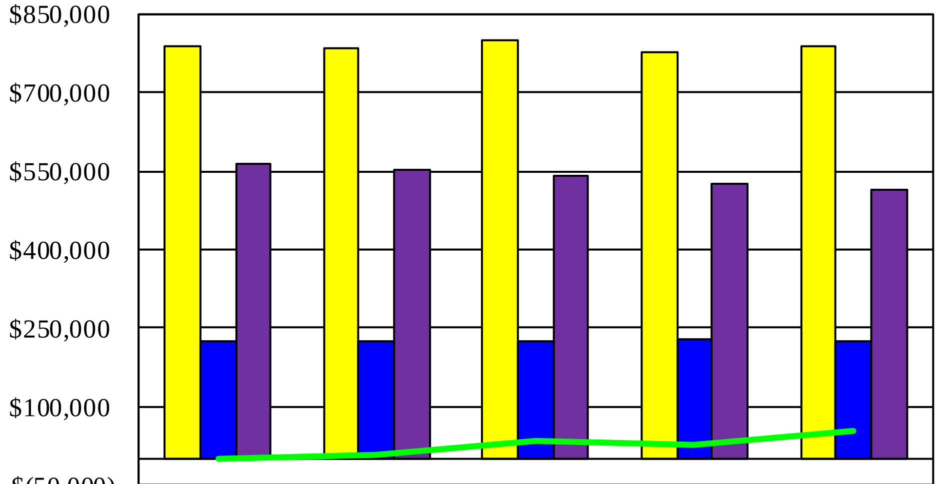
At December 31, 2017, the Telecommunications Conduit Fund had a total net position of $187,243, of which $182,763 was the net investment in capital assets and $4,480 was considered unrestricted. The Telecommunications Conduit Fund ended the year with working capital of $4,480.

The Telecommunications Conduit Fund operating revenue was ($42,280) for 2017, a decrease of $184,553. The negative revenue in 2017 relates to the City issuing a refund of revenues received in prior years for one of the customers of this fund. Operating expenses were consistent with the prior year.

LONG-TERM CARE FACILITY FUND

The following graph presents selected data for the City's Long-Term Care Facility Fund for the past five years:

Long-Term Care Facility Fund
Year Ended December 31,



	2013	2014	2015	2016	2017
Operating Revenue	$790,338	$785,719	$801,544	$778,119	$789,652
Operating Expense	$226,148	$225,640	$226,248	$226,621	$225,479
Net Other Expense	$564,314	$552,419	$539,760	$526,780	$512,633
Change in Net Position	$(124)	$7,660	$35,536	$24,718	$51,540

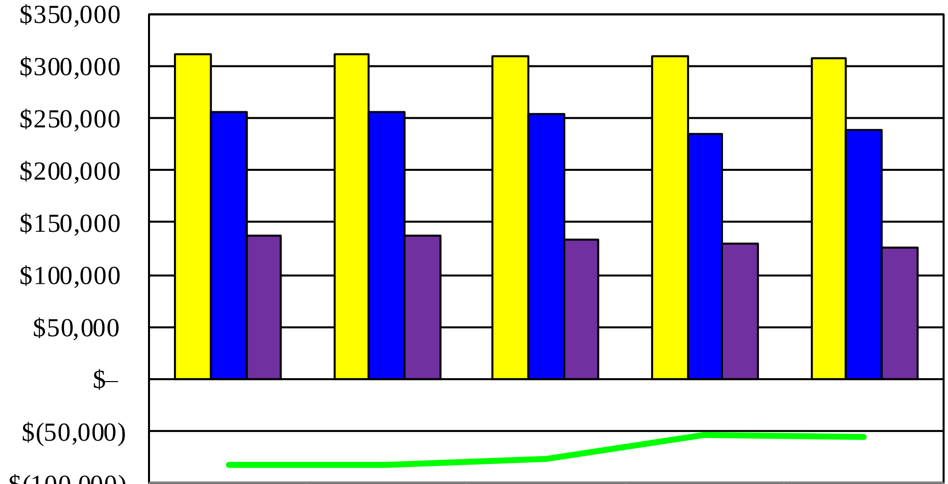
At December 31, 2017, the Long-Term Care Facility Fund had a total net position deficit of ($646,209), of which a deficit of ($749,806) was the net investment in capital assets, $106,848 was restricted for debt service, and a deficit balance of ($3,251) was considered unrestricted.

The Long-Term Care Facility Fund is used to collect lease revenue and pay debt service on the long-term care facility.

MEDICAL OFFICE BUILDING FUND

The following table presents selected data for the City's Medical Office Building Fund for the past five years:

Medical Office Building Fund
Year Ended December 31,



	2013	2014	2015	2016	2017
Operating Revenue	$311,363	$311,715	$310,107	$310,515	$307,515
Operating Expense	$255,149	$256,076	$254,673	$234,919	$238,194
Net Other Expense	$138,213	$137,392	$132,840	$129,468	$125,229
Change in Net Position	$(81,999)	$(81,753)	$(77,406)	$(53,872)	$(55,908)

At December 31, 2017, the Medical Office Building Fund had a total net position of $2,681,790, of which $2,626,633 was the net investment in capital assets and $55,157 was unrestricted.

The Medical Office Building Fund is used to account for the construction of a medical office building. This fund is also used to collect lease revenue and pay debt service on this same facility.

DEBT SERVICE

The following table shows outstanding debt per capita for the City's governmental activities and comparable state-wide averages:

Outstanding Debt per Capita
Governmental Activities
With State-Wide Comparable Information

Bond Type	State-Wide as of December 31, 2015	State-Wide as of December 31, 2016	City of Saint Peter as of December 31, 2015	City of Saint Peter as of December 31, 2016	City of Saint Peter as of December 31, 2017
General obligation	$ 486	$ 521	$ 202	$ 186	$ 156
Tax increment	96	94	285	440	405
Special assessment	475	476	–	–	–
General obligation revenue	384	391	375	349	324
Revenue	219	242	–	–	–
Other	5	3	–	–	–
Governmental activities total	$ 1,665	$ 1,727	$ 862	$ 975	$ 885

The following table shows outstanding debt per capita for the City's enterprise funds and comparable state-wide averages:

Outstanding Debt per Capita
Enterprise Funds
With State-Wide Comparable Information

Fund	State-Wide as of December 31, 2015	State-Wide as of December 31, 2016	City of Saint Peter as of December 31, 2015	City of Saint Peter as of December 31, 2016	City of Saint Peter as of December 31, 2017
Electric	$ 396	$ 419	$ 691	$ 624	$ 719
Water	185	186	1,491	1,413	1,373
Wastewater	203	217	784	686	661
Storm water	19	22	9	7	5
Total enterprise funds	$ 803	$ 844	$ 2,975	$ 2,730	$ 2,758
Government-wide totals	$ 2,468	$ 2,571	$ 3,837	$ 3,705	$ 3,643

In 2017, the increase in debt in the Electric Fund was for a capital lease totaling $2,650,000 for a guaranteed energy savings program with Ameresco. As seen in the table above, the City has more outstanding debt per capita than the average Minnesota city. This higher than average debt balance is mostly related to balances within the Water and Wastewater Funds, which are related to recent capital improvements in these funds.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

In addition to fund-based information, the current reporting model for governmental entities also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering services, including capital assets and long-term liabilities.

STATEMENT OF NET POSITION

The Statement of Net Position essentially tells you what your city owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, net position is divided into three components: net investment in capital assets, restricted, and unrestricted.

The following table presents the components of the City's net position as of December 31, 2016 and 2017, for governmental activities and business-type activities:

	As of December 31, 2016	As of December 31, 2017	Increase (Decrease)
Net position			
Governmental activities			
Net investment in capital assets	$ 24,742,817	$ 26,211,568	$ 1,468,751
Restricted	6,219,284	5,143,572	(1,075,712)
Unrestricted	2,716,042	2,121,885	(594,157)
Total governmental activities	33,678,143	33,477,025	(201,118)
Business-type activities			
Net investment in capital assets	47,717,968	50,190,184	2,472,216
Restricted	1,801,534	1,928,498	126,964
Unrestricted	3,309,927	2,124,144	(1,185,783)
Total business-type activities	52,829,429	54,242,826	1,413,397
Total net position	$ 86,507,572	$ 87,719,851	$ 1,212,279

Much of the City's net position is restricted by virtue of external restrictions (statutory reserves) or by the nature of the fund it is in. Further, a significant portion of net position has been identified as invested in capital assets, net of related debt, which leaves the balance unrestricted. Most of the increase in net investment in capital assets in the governmental activities is related to restricted net position being used for capital purposes in the current year. The changes in the business-type activities relate to capital investments in the Electric Fund in the current year.

Statement of Activities

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net positions. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in the net position of the City for the years ended December 31, 2016 and 2017:

	2016	2017		
	Net Difference	Expenses	Program Revenues	Net Difference
Net (expense) revenue				
Governmental activities				
General government	$ (817,231)	$ 1,487,194	$ 566,467	$ (920,727)
Public safety	(2,632,220)	3,390,975	778,898	(2,612,077)
Public works	147,089	2,953,441	1,400,977	(1,552,464)
Parks and recreation	(1,772,072)	2,145,437	198,678	(1,946,759)
Economic development	(522,981)	1,019,111	281,696	(737,415)
Interest on long-term debt	(308,080)	301,083	–	(301,083)
Business-type activities				
Electric	915,044	10,733,695	11,364,385	630,690
Water	331,634	3,008,437	3,420,806	412,369
Environmental services	(43,824)	808,861	763,980	(44,881)
Wastewater	1,168,520	2,767,042	3,905,527	1,138,485
Transit	56,887	–	–	–
Storm water	(40,471)	705,023	681,401	(23,622)
Telecommunications conduit	128,009	14,265	(42,280)	(56,545)
Long-term care facility	23,843	739,379	789,652	50,273
Medical office building	(54,153)	363,890	307,515	(56,375)
	(3,420,006)	$ 30,437,833	$ 24,417,702	(6,020,131)
General revenues				
Taxes	3,154,083			3,383,845
Unrestricted grants and contributions	3,443,533			3,387,853
Investment earnings	92,573			101,797
Other revenues	172,499			382,489
Gain on sale of assets	28,125			132,046
Special item – transfer of operations	–			(155,620)
Total general revenues	6,890,813			7,232,410
Change in net position	3,470,807			1,212,279
Net position – beginning	83,036,765			86,507,572
Net position – ending	$ 86,507,572			$ 87,719,851

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes and unrestricted grants. It also shows if the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses. This is critical given the current downward pressures on the general revenue sources.

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LEGISLATIVE UPDATES

The 2017 legislative session began with a full agenda, which included adopting a fiscal year 2018–2019 biennial state budget. The February 2017, state budget forecast projected that the state General Fund would end the 2016–2017 biennium with a surplus of $743 million, eliminating the need for budget cuts or transfers to balance the fund. However, the Legislature was expected to address several significant spending areas for which successful funding appropriations had not been passed in recent legislative sessions. The 2017 regular legislative session ended with four omnibus budget bills being vetoed, potentially leaving a number of these same areas without appropriations. After a three-day special session, the Governor and Legislature were able to agree on budget and appropriation bills addressing most of the state budgetary needs for the upcoming biennium, albeit not without several line item vetoes invoked by the Governor, including striking the appropriations for operating the House and Senate from the bills.

The following is a summary of recent legislation affecting Minnesota cities:

Omnibus Bonding Bill – The omnibus bonding bill authorizes financing for approximately $1.1 billion in capital improvements. Included in the approved funding was $255 million for transportation infrastructure, $83 million for economic development, $116 million for Public Financing Agency water infrastructure loans and grants to municipalities, and $4 million for Metropolitan Council inflow and infiltration improvement grants to metro area cities.

Omnibus Transportation Bill – The omnibus transportation bill appropriates $2.95 billion in fiscal 2018 and $2.87 billion in fiscal 2019, for a wide variety of transportation related projects. Included in the appropriations are approximately $191 million and $198 million for municipal state aid street fund purposes in fiscal 2018 and fiscal 2019, respectively.

Property Tax Relief – The omnibus tax bill contained a number of property tax relief measures, including:

- Elimination of the implicit price deflator annual increase for the state general property tax levy, effectively freezing it at the payable 2018 level for many property classes;
- Exempting the first $100,000 of each commercial-industrial parcel's tax capacity from the state general property tax levy;
- Expanding eligibility for homestead or agricultural property classification exemptions for certain types of resort and conservation property for general property taxes; and
- Increasing the minimum value for a storage shed, deck, or similar structure on a leased mobile home to be considered taxable from $1,000 to $10,000.

Local Government Aid – The annual appropriation for Local Government Aid (LGA) for cities was increased $15.0 million to $534.4 million for aid payable in 2018 and thereafter, and the LGA payment schedule was accelerated for fiscal 2019 only. Several corrections were also made to the city LGA formula calculation, and a sparsity adjustment was incorporated for certain medium and small cities beginning in 2018.

Minnesota Investment Fund – The omnibus jobs and economic growth bill appropriates $12.5 million for each year of the biennium for the Minnesota Investment Fund, which is available for municipalities to provide loans to assist with the expansion of local businesses.

Electronic Funds Transfers – Effective August 1, 2017, home rule charter cities of the second, third, or fourth class are added to the list of local government entities allowed to pay certain claims using electronic funds transfers. To be eligible, local governments must enact specified policy controls governing the initiation, authorization, and documentation of electronic funds transfers.

Claims Declaration – The requirement to obtain a specific form of written claim declaration was also repealed based on the understanding that by making the claim, the party making the claim is declaring that the claim is just and correct and has not been paid previously.

City E-mail Address Required to Receive State Aid – Effective for state aids payable in 2018 and thereafter, cities will be required to register an official e-mail address with the Commissioner of the state Department of Revenue in order to receive state aid payments.

Workforce Housing Tax Increment Financing – The omnibus tax bill created a new authorized use of tax increment financing (TIF), for workforce housing in cities located outside of the statutorily defined metropolitan area that meet certain criteria.

Tax Increment Financing Interfund Loans – Interfund loan provisions for TIF were amended to make it easier for cities and development authorities to make and document interfund loans. Loans may now be made or documented up to 60 days after the actual transfer or expenditure occurs. Interfund loan resolutions may now be passed prior to the final approval of the related TIF plan. Loan terms may be amended after the loan has been made if the TIF district has not been decertified.

Public Debt – The Legislature passed several amendments to statutes governing public debt that took effect on July 1, 2017, including:

- Allowing both home rule charter and statutory cities to issue 20-year capital notes for projects to eliminate R-22 Freon-based refrigerant;
- Increasing the maximum dollar limit on Housing and Redevelopment Authority general obligation bond issues from $3 million to $5 million; and
- Modifying the requirements for street reconstruction bonds to be approved by a two-thirds majority of the governing body rather than requiring unanimous approval.

Local Housing Trust Funds – The omnibus jobs and economic growth appropriations bill established authority for cities to create a local housing trust fund by ordinance, or to participate in a joint powers agreement to establish a regional housing trust fund. The funds, which may be financed from sources such as local government appropriations or housing and redevelopment authority levies, may be used for grants or loans for development, rehabilitation, financing of housing to match federal or state or private funds for housing, down payment assistance, rental assistance, or homebuyer counseling.

Long-Term Equity Investment Authority – Effective July 1, 2017, cities with a population of more than 100,000 or those that had their most recently issued general obligation bonds rated in the highest category, are authorized to invest in an expanded list of authorized investments that includes certain equity-based investments. The amount invested in equity-based investments cannot exceed 15 percent of the sum of a city’s assigned cash, cash equivalents, deposits, and investments. Before investing in the expanded list of authorized investments, the governing body of the municipality must adopt a resolution acknowledging the risks assumed.

Border-to-Border Broadband Grants – The Legislature appropriated $20 million in fiscal 2018 for the Border-to-Border Broadband Grant Program. The grants, available through the Office of Broadband Development in the Department of Employment and Economic Development, provide funding to help communities meet state goals for the development of state-wide, high-speed broadband access, focusing on areas currently considered to be underserved or with a high concentration of low-income households.

Elections – An omnibus elections law was passed making several modifications to election administration, including: requiring special elections conducted by local governments be held on one of five uniform election dates, clarifying the timeline for municipalities to change from odd to even-year election cycles or vise-versa, allowing municipalities to canvass the results of a primary election on the second or third day after the primary, and appropriating $7 million for grants to replace aging election equipment or purchase electronic poll books.

Workers' Compensation and PERA Retirement Benefits – A statutory change was adopted based on the results of recent court rulings that Public Employees Retirement Association (PERA) retirement benefits should not be offset against workers' compensation permanent total disability benefits. Under the new law, claimants would receive all past and future permanent and total disability benefits without a PERA retirement offset.

Notice of Proposed Ordinances – A new statute was created requiring cities to provide a 10-day notice prior to a scheduled final vote on most new proposed ordinances or amendments to ordinances, and specifying the various acceptable means of providing the required notification.

State Building Code Applicability – Construction, additions, and alterations to places of public accommodation; defined as publicly or privately-owned facilities designed for occupancy by 200 or more people as a sports or entertainment arena, stadium, theater, community or convention hall, special event center, indoor amusement facility or water park, or indoor swimming pool; must comply with the state building code.

Sunday Liquor Sales – Minnesota Statutes were amended to allow for the sale of intoxicating liquor on Sundays between the hours of 11:00 a.m. and 6:00 p.m. by off-sale licensees, effective July 1, 2017.

REAL ID Act – Minnesota Statutes were amended to make the state compliant with federal REAL ID Act requirements, which will change identity verification and security related to state-issued identification cards and driver's licenses.

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GASB STATEMENT NO. 75, *ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS*

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with other post-employment benefits (OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement replaces the requirements of GASB Statement Nos. 45 and 57.

This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Similar to changes implemented for pensions, this statement requires the liability of employer and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Note disclosure and RSI requirements about defined benefit OPEB also are addressed.

The requirements for this statement are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB STATEMENT NO. 83, *CERTAIN ASSET RETIREMENT OBLIGATIONS*

This statement addresses accounting and financial reporting for certain asset retirement obligations (ARO), which are legally enforceable liabilities associated with the retirement of a tangible capital asset.

This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability when it is both incurred and reasonably estimable. The measurement of an ARO is required to be based on the best estimate of the current value of outlays expected to be incurred, and a deferred outflow of resources associated with an ARO is required to be measured at the amount of the corresponding liability upon initial measurement.

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

If a government owns a minority interest in a jointly owned tangible asset where a nongovernmental entity is the majority owner or has operational responsibility for the jointly owned asset, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this statement.

The statement also requires disclosures of any funding or financial assurance requirements a government has related to the performance of asset retirement activities, along with any assets restricted for the payment of the government's AROs. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This statement requires similar disclosures for a government's minority shares of AROs.

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

GASB Statement No. 84, *Fiduciary Activities*

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

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements, which should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

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

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

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

GASB Statement No. 85, *Omnibus 2017*

The objective of this statement is to address issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and OPEB). The statement is meant to enhance consistency in the application of recent accounting and financial reporting standards. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

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

Current GASB guidance requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. This new standard establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt.

The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87, *Leases*

A lease is a contract that transfers control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement.

Governments enter into leases for many types of assets. Under the previous guidance, leases were classified as either capital or operating depending on whether the lease met any of four tests. In many cases, the previous guidance resulted in reporting lease transactions differently than similar nonlease financing transactions.

The goal of this statement is to better meet the information needs of users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

To reduce the cost of implementation, this statement includes an exception for short-term leases, defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

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