



Financial Statements  
December 31, 2014

# City of Eagle Lake

**INTRODUCTORY SECTION**

Officials..... I

**FINANCIAL SECTION**

Independent Auditor’s Report..... II

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position ..... 1  
Statement of Activities..... 2

Fund Financial Statements:

Balance Sheet – Governmental Funds ..... 3  
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position ..... 4  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds ..... 5  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities ..... 6  
Statement of Net Position – Proprietary Funds..... 7  
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds ..... 8  
Statement of Cash Flows - Proprietary Funds..... 9  
Notes to Financial Statements..... 10

Required Supplementary Information:

Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – General Fund ... 27  
Notes to the Required Supplementary Information ..... 29

Supplemental Schedules and Related Information:

Combining Balance Sheet – Nonmajor Governmental Funds ..... 30  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds ..... 31

**MINNESOTA COMPLIANCE SECTION**

Independent Auditor’s Report on Minnesota Legal Compliance ..... 34

**CITY COUNCIL**

Tim Auringer	Mayor
Dennis Terrell	Council-member
Clete Frederick	Council-member
Ryan Short	Council-member
John Ries	Council-member

**ADMINISTRATION**

Brad Potter	City Administrator
Rick Reinbold	Public Works Director
John Kopp	Police Chief
Vern Simpson II	Fire Chief



## Independent Auditor's Report

Honorable Mayor and City Council  
City of Eagle Lake  
Eagle Lake, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eagle Lake (City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eagle Lake as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eagle Lake's financial statements. The introductory section and combining governmental fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining governmental fund financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



Mankato, Minnesota  
June 29, 2015

City of Eagle Lake  
Statement of Net Position  
December 31, 2014

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
Cash and cash equivalents	\$ 2,245,565	\$ 1,720,675	\$ 3,966,240
Restricted cash for bond refunding	1,839,647	-	1,839,647
Receivables			
Taxes	22,708	-	22,708
Special assessments	306,903	1,146	308,049
Accounts	13,597	136,489	150,086
Notes	13,920	-	13,920
Prepaid items	245	-	245
Capital assets not being depreciated:			
Land	361,199	12,000	373,199
Capital assets, net of accumulated depreciation:			
Distribution plant	-	1,379,609	1,379,609
Equipment	271,387	195,311	466,698
Building	2,217,036	-	2,217,036
Road network	3,748,228	-	3,748,228
Land improvements	400,523	-	400,523
Vehicles	612,757	-	612,757
Total assets	<u>12,053,715</u>	<u>3,445,230</u>	<u>15,498,945</u>
<b>Liabilities</b>			
Accounts payable	28,211	6,309	34,520
Escrow payable	60,351	-	60,351
Interest payable	74,511	3,088	77,599
Unearned revenue	-	1,146	1,146
Noncurrent liabilities:			
Compensated absences	10,589	4,572	15,161
Due within one year	190,000	40,000	230,000
Due in more than one year	5,330,000	140,000	5,470,000
Total liabilities	<u>5,693,662</u>	<u>195,115</u>	<u>5,888,777</u>
<b>Net Position</b>			
Net investment in capital assets	2,091,130	1,406,920	3,498,050
Restricted for:			
Debt service	2,333,959	-	2,333,959
Other purposes	76,309	-	76,309
Unrestricted	1,858,655	1,843,195	3,701,850
Total Net Position	<u>\$ 6,360,053</u>	<u>\$ 3,250,115</u>	<u>\$ 9,610,168</u>

City of Eagle Lake  
Statement of Activities  
Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
<b>Governmental Activities</b>							
General government	\$ 480,382	\$ 34,504	\$ -	\$ -	\$ (445,878)	\$ -	\$ (445,878)
Public safety	417,558	73,306	-	-	(344,252)	-	(344,252)
Streets and highways	330,838	-	-	-	(330,838)	-	(330,838)
Sanitation	150,099	190,283	-	-	40,184	-	40,184
Culture and recreation	97,364	-	-	-	(97,364)	-	(97,364)
Economic development	96,446	-	-	-	(96,446)	-	(96,446)
Interest and other charges on long-term debt	183,039	-	-	-	(183,039)	-	(183,039)
Total governmental activities	<u>1,755,726</u>	<u>298,093</u>	<u>-</u>	<u>-</u>	<u>(1,457,633)</u>	<u>-</u>	<u>(1,457,633)</u>
<b>Business-Type Activities</b>							
Water	220,925	300,966	-	-	-	80,041	80,041
Sewer	295,786	429,104	-	-	-	133,318	133,318
Total business-type activities	<u>516,711</u>	<u>730,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213,359</u>	<u>213,359</u>
Total primary government	<u>\$ 2,272,437</u>	<u>\$ 1,028,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,457,633)</u>	<u>213,359</u>	<u>(1,244,274)</u>
<b>GENERAL REVENUES</b>							
					653,033	-	653,033
					641,970	-	641,970
					64,804	-	64,804
					18,160	-	18,160
					(12,935)	-	(12,935)
					132,700	(132,700)	-
					8,053	-	8,053
					139,081	-	139,081
					78,238	18,250	96,488
Total general revenues					<u>1,723,104</u>	<u>(114,450)</u>	<u>1,608,654</u>
					265,471	98,909	364,380
					6,094,582	3,139,097	9,233,679
					<u>\$ 6,360,053</u>	<u>\$ 3,238,006</u>	<u>\$ 9,598,059</u>

City of Eagle Lake  
Balance Sheet – Governmental Funds  
December 31, 2014

	General Fund	2008 Debt Service	2010 Debt Service	Joan Lane Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 1,890,137	\$ (58,546)	\$ 275,863	\$ 43,086	\$ 95,025	\$ 2,245,565
Restricted cash for bond refunding	-	1,839,647	-	-	-	1,839,647
<b>Receivables</b>						
Taxes	20,388	1,333	-	222	765	22,708
Special assessments	31,439	-	229,212	46,252	-	306,903
Accounts	13,597	-	-	-	-	13,597
Notes	-	-	-	-	13,920	13,920
Prepaid items	245	-	-	-	-	245
Total assets	<u>\$ 1,955,806</u>	<u>\$ 1,782,434</u>	<u>\$ 505,075</u>	<u>\$ 89,560</u>	<u>\$ 109,710</u>	<u>\$ 4,442,585</u>
<b>Liabilities</b>						
Accounts payable	\$ 26,211	\$ -	\$ -	\$ -	\$ 2,000	\$ 28,211
Escrow payable	60,351	-	-	-	-	60,351
Total liabilities	<u>86,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>88,562</u>
<b>Deferred inflows of resources</b>						
Unavailable revenue	43,784	-	225,117	46,252	14,428	329,581
<b>Fund Balances</b>						
Nonspendable	245	-	-	-	-	245
Restricted	-	1,782,434	279,958	43,308	93,282	2,198,982
Assigned	95,000	-	-	-	-	95,000
Unassigned	1,730,215	-	-	-	-	1,730,215
Total fund balances	<u>1,825,460</u>	<u>1,782,434</u>	<u>279,958</u>	<u>43,308</u>	<u>93,282</u>	<u>4,024,442</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,955,806</u>	<u>\$ 1,782,434</u>	<u>\$ 505,075</u>	<u>\$ 89,560</u>	<u>\$ 109,710</u>	<u>\$ 4,442,585</u>

City of Eagle Lake  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
 December 31, 2014

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Total Fund Balances for Governmental Funds:	\$ 4,024,442
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$10,428,377 and the accumulated depreciation is \$2,817,247.	7,611,130
Some of the City's receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as unavailable revenue in the funds.	329,581
Interest on long-term debt is not accrued in governmental funds, but rather, is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$74,511.	(74,511)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net position. The balance in bonds payable at year-end is:	(5,520,000)
Compensated absences earned by employees are not accrued in governmental funds, but are recognized as an expenditure when due. Compensated absences accrued at year end are equal to \$10,589.	<u>(10,589)</u>
Total Net Position for Governmental Activities	<u><u>\$ 6,360,053</u></u>

City of Eagle Lake

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended December 31, 2014

	General Fund	2008 Debt Service	2010 Debt Service	Joan Lane Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 387,095	\$ 105,620	\$ -	\$ 24,385	\$ 100,696	\$ 617,796
Franchise taxes	38,903	-	-	-	-	38,903
Special assessments	8,846	-	90,278	-	-	99,124
Fines and forfeits	8,053	-	-	-	-	8,053
Licenses and permits	139,081	-	-	-	-	139,081
Intergovernmental - state	641,970	-	-	-	-	641,970
Charges for services	298,093	-	-	-	-	298,093
Interest earnings	6,994	11,128	-	-	38	18,160
Miscellaneous	135,467	-	-	-	5,511	140,978
Total revenue	<u>1,664,502</u>	<u>116,748</u>	<u>90,278</u>	<u>24,385</u>	<u>106,245</u>	<u>2,002,158</u>
<b>Expenditures</b>						
<b>Current</b>						
General government	509,309	-	-	-	-	509,309
Public safety	401,418	-	-	-	-	401,418
Streets and highways	377,228	-	-	-	-	377,228
Sanitation	150,099	-	-	-	-	150,099
Culture and recreation	75,785	-	-	-	-	75,785
Economic development	-	-	-	-	93,845	93,845
<b>Debt Services</b>						
Principal	-	95,000	64,000	25,000	5,000	189,000
Interest and other charges	-	148,797	41,573	5,329	933	196,632
Total expenditures	<u>1,513,839</u>	<u>243,797</u>	<u>105,573</u>	<u>30,329</u>	<u>99,778</u>	<u>1,993,316</u>
Excess (deficiency) of revenues over (under) expenditures	<u>150,663</u>	<u>(127,049)</u>	<u>(15,295)</u>	<u>(5,944)</u>	<u>6,467</u>	<u>8,842</u>
<b>Other Financing Sources</b>						
Transfers in	-	100,000	32,700	-	-	132,700
Net change in fund balances	150,663	(27,049)	17,405	(5,944)	6,467	141,542
Fund Balance - Beginning	1,674,797	1,809,483	262,553	49,252	86,815	3,882,900
Fund Balance - Ending	<u>\$ 1,825,460</u>	<u>\$ 1,782,434</u>	<u>\$ 279,958</u>	<u>\$ 43,308</u>	<u>\$ 93,282</u>	<u>\$ 4,024,442</u>

City of Eagle Lake

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
Year Ended December 31, 2014

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Total Net Change in Fund Balances - Governmental Funds \$ 141,542

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$380,111) exceeds depreciation (\$342,055) in the current period. 38,056

Some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred and delinquent special assessment receivables decreased by \$34,320, delinquent property taxes decreased by \$3,666, accounts receivable decreased by \$4,082, and loans receivable decreased \$58,658. (100,726)

Asset sales net proceeds are reported in governmental funds as revenues. However, in the statement of activities, the gain or loss from the disposal of these assets only is recorded. The reported loss for the period was \$12,935. (12,935)

The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 189,000

The governmental funds report compensated absence costs as expenditures when paid, (\$0 paid in current year) on the other hand, the statement of activities reports compensated absence costs as the employees earn the compensated absences. (\$3,059) was earned in the current year. In the statement of net position, the payment of compensated absences results in a reduction of the liability. This amount is the net effect of these differences. (3,059)

Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. There was \$74,511 and \$88,104 of accrued interest at December 31, 2014 and 2013, respectively. 13,593

Change in Net Position of Governmental Activities \$ 265,471

City of Eagle Lake  
Statement of Net Position – Proprietary Funds  
December 31, 2014

	Water	Sanitary Sewer	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 779,201	\$ 941,474	\$ 1,720,675
Receivables:			
Accounts	33,876	102,613	136,489
Special assessments	-	1,146	1,146
Total current assets	<u>813,077</u>	<u>1,045,233</u>	<u>1,858,310</u>
Noncurrent assets:			
Capital assets not being depreciated:			
Land	6,000	6,000	12,000
Capital assets, net of accumulated depreciation:			
Distribution plant	518,882	860,727	1,379,609
Buildings and equipment	93,949	101,362	195,311
Total noncurrent assets	<u>618,831</u>	<u>968,089</u>	<u>1,586,920</u>
Total assets	<u>1,431,908</u>	<u>2,013,322</u>	<u>3,445,230</u>
<b>Liabilities</b>			
Current liabilities			
Current portion of bonds payable	40,000	-	40,000
Accounts payable	3,274	3,035	6,309
Interest payable	3,088	-	3,088
Unearned revenue	-	1,146	1,146
Total current liabilities	<u>46,362</u>	<u>4,181</u>	<u>50,543</u>
Non-current liabilities			
Compensated absences	2,286	2,286	4,572
Bonds payable, less current portion	140,000	-	140,000
Total liabilities	<u>188,648</u>	<u>6,467</u>	<u>195,115</u>
<b>Net Position</b>			
Net investment in capital assets	438,831	968,089	1,406,920
Unrestricted	804,429	1,038,766	1,843,195
Total Net Position	<u>\$ 1,243,260</u>	<u>\$ 2,006,855</u>	<u>\$ 3,250,115</u>

City of Eagle Lake  
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds  
Year Ended December 31, 2014

	Water	Sanitary Sewer	Total
Operating Revenues			
Utility sales	\$ 285,124	\$ 411,504	\$ 696,628
Connection charges	15,842	17,600	33,442
Total operating revenues	<u>300,966</u>	<u>429,104</u>	<u>730,070</u>
Operating Expenses			
Distribution system	174,803	242,308	417,111
General and administrative	2,165	10,183	12,348
Depreciation	35,757	43,295	79,052
Total operating expenses	<u>212,725</u>	<u>295,786</u>	<u>508,511</u>
Operating Income	<u>88,241</u>	<u>133,318</u>	<u>221,559</u>
Nonoperating Revenues (Expenses)			
Interest expense	(8,200)	-	(8,200)
Special assessments	-	12,109	12,109
Miscellaneous revenue	18,250	-	18,250
Total nonoperating revenues (expenses)	<u>10,050</u>	<u>12,109</u>	<u>22,159</u>
Income before transfers	98,291	145,427	243,718
Transfers Out	<u>(82,700)</u>	<u>(50,000)</u>	<u>(132,700)</u>
Change in Net Position	15,591	95,427	111,018
Net Position - Beginning	<u>1,227,669</u>	<u>1,911,428</u>	<u>3,139,097</u>
Net Position - Ending	<u>\$ 1,243,260</u>	<u>\$ 2,006,855</u>	<u>\$ 3,250,115</u>

City of Eagle Lake  
Statement of Cash Flows - Proprietary Funds  
Year Ended December 31, 2014

	Water	Sanitary Sewer	Enterprise Fund Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 299,276	\$ 399,391	\$ 698,667
Other receipts	18,250	-	18,250
Payments to suppliers	(166,149)	(242,096)	(408,245)
Net cash provided by operating activities	<u>151,377</u>	<u>157,295</u>	<u>308,672</u>
Cash Flows used for Noncapital Financing Activity			
Transfers to governmental funds	<u>(82,700)</u>	<u>(50,000)</u>	<u>(132,700)</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on bonds	(40,000)	-	(40,000)
Special assessments	-	24,624	24,624
Interest paid on bonds	<u>(8,295)</u>	<u>-</u>	<u>(8,295)</u>
Net cash used for capital and related financing activities	<u>(48,295)</u>	<u>24,624</u>	<u>(23,671)</u>
Net Increase in Cash and Cash Equivalents	20,382	131,919	152,301
Cash and Cash Equivalents - January 1	<u>758,819</u>	<u>809,555</u>	<u>1,568,374</u>
Cash and Cash Equivalents - December 31	<u>\$ 779,201</u>	<u>\$ 941,474</u>	<u>\$ 1,720,675</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Change in net position	\$ 88,241	\$ 133,318	\$ 221,559
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	35,757	43,295	79,052
Miscellaneous revenue and expenses	18,250	-	18,250
Decrease (increase) in assets			
Accounts receivable	(1,690)	(28,567)	(30,257)
Special assessments receivable			
Prepaid items	7,402	7,401	14,803
Increase (decrease) in liabilities			
Accounts payable	3,087	2,664	5,751
Unearned revenue	-	(1,146)	(1,146)
Compensated absences	<u>330</u>	<u>330</u>	<u>660</u>
Net Cash Provided by Operating Activities	<u>\$ 151,377</u>	<u>\$ 157,295</u>	<u>\$ 308,672</u>

## **Note 1 - Summary of Significant Accounting Policies**

The City of Eagle Lake (the City) is a municipal corporation governed by a mayor and a four member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City applies all relevant GASB pronouncements. The significant City accounting policies are described below.

### **A. Financial Reporting Entity**

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is the basic level of government which has oversight responsibility and control over all activities related to the government in the City's area. The City receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the GASB's pronouncements, since mayor and council members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City does not have any component units.

## **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

## **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2008 debt service fund* accounts for the sources of revenue for and the payments for the 2008 G.O. Capital Improvement Plan bonds.

The *2010 debt service fund* accounts for the sources of revenue for and the payments for the 2010 G.O. bonds and the 2010 PFA loan.

The *Joan Lane debt service fund* accounts for the sources of revenue for and the payments for the 2013A G.O. bonds.

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the government's water distribution operations.

The *sanitary sewer fund* accounts for the activities of the government's sewage pumping stations and collection systems.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sanitary sewer enterprise funds are charges to customers for sales and services. The enterprise funds also recognizes as operating revenue refunds and reimbursements and penalties. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## **D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Equity**

### **1. Cash and Cash Equivalents**

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the earnings according to its average cash and investments balance. Cash and cash equivalents include amounts in demand deposits, certificates of deposit as well as amounts in the Minnesota 4M Plus Fund, an external investment pool in which funds are available on demand. For the purposes of the statement of cash flows, cash includes all of the above. There were no investing, capital, or financing activities that affect recognized assets or liabilities but do not result in cash receipts or payments for the year ended December 31, 2014. The Minnesota 4M Plus Fund is stated at cost which approximates fair value.

## **2. Restricted Cash**

Certain resources in the 2008 Debt Service Fund have been set aside a restriction for bond refunding.

## **3. Receivables and Payables**

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. The City has reviewed receivables and determined that no allowance for uncollectible accounts is necessary.

Interest on investments and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

On or before September 15th of each year, the City Council certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All cities must hold public hearings on their proposed property tax levies.

Beginning on November 29th and through December 20th of each year, the City is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the City Council certifies its final adopted property taxes payable the following year to the county auditor. If the City has not certified its final property tax by this time, its property tax shall be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts three times a year, in January, June, and November.

## **4. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

## **5. Capital Assets**

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Lift station	50
Sanitary sewer mains	40
Water mains	40
Storm sewer mains	40
Sump pump lines	40
Buildings	40
Concrete curb and gutter	30
Sidewalks	30
Wells and pump houses	25
Water, electric, meters	20
Office equipment	10
Machinery, equipment, radios, phones	10
Computer equipment and software	5
Vehicles	5
Land	Not Depreciated

#### **6. Compensated Absences**

Vacation leave may be accumulated to a total of not more than 80 hours. Vacation leave is paid 100 percent at the time of separation from employment with the City, given the employee has served at least twelve consecutive months prior to separation.

#### **7. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued is reported as other financing sources.

Bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

## 8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for various sources: property taxes, special assessments, and notes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

## 9. Fund Equity and Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements and proprietary fund statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first.

GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. The City Council has delegated this authority to the City Administrator.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City approved to maintain 50 percent of the annual budget as a minimum unassigned general fund balance. If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

### **E. Inter-fund Transactions**

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

### **F. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **Note 2 - Stewardship, Compliance and Accountability**

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2014, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the government's manager so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The government's council reviews the budget at their regular meeting in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**B. Excess of Expenditures over Appropriations**

For the year ended December 31, 2014, expenditures exceeded appropriations in the following funds: \$204,015 – General Fund, \$1,607 – EDA, \$51,862 – 2008 debt service, \$31,838 – 2010 debt service, and \$6,628 – Joan Lane debt service. The excess was eliminated by greater than anticipated revenues and available fund balance.

**Note 3 - Detailed Notes on All Funds**

**A. Cash and Cash Equivalents**

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

The Minnesota 4M Plus Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pools shares.

**Custodial Credit Risk.** Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2014, none of the City's bank balances were exposed to custodial credit risk.

**B. Receivables**

Receivables as of the year end for the City are reported on the Statement of Net Position. The City has determined no allowance for uncollectible receivables is necessary.

The City issued a promissory notes through the Economic Development Revolving Loan Fund program to a local businesses. The note is receivable in monthly installments of \$459 with a balloon payment in 2015 and an interest rate of 4.25%. The note is secured by one or a combination of a mortgage, a second mortgage, equipment and fixtures. The current outstanding balance is \$13,920 as of December 31, 2014.

Governmental funds report unearned revenue in connection with receivables for revenues that have been received but unearned and report unavailable revenue in connection with receivables that have been earned but not received. Both items are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments not yet due (general fund)	\$ 27,064	\$ -
Special assessments not yet due (debt service fund)	271,369	-
Delinquent special assessments (general fund)	596	-
Delinquent property taxes (general fund)	16,124	-
Delinquent property taxes (special revenue fund)	508	-
Loan receivable (special revenue fund)	13,920	-
Total	\$ 329,581	\$ -

The only receivables not expected to be collectible within one year are the following: General Fund: \$24,665 of special assessments not yet due and Debt Service Fund special assessments not yet due in the 2010 Debt Service: \$211,695 and in the Joan Lane Debt Service: \$40,669.

**C. Capital Assets**

Depreciation expense was charged to activities of the governmental activities as follows:

General government	\$ 62,071
Public safety	78,606
Streets and highways	177,198
Culture and recreation	21,579
Economic development	2,601
	<u>342,055</u>
	<u>\$ 342,055</u>

Capital asset activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	<u>\$ 361,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 361,199</u>
Capital assets, being depreciated				
Buildings	2,772,316	-	-	2,772,316
Road network	5,190,180	19,804	-	5,209,984
Equipment	594,013	122,212	59,056	657,169
Land improvements	457,156	94,057	-	551,213
Vehicles	758,122	144,038	25,664	876,496
Total capital assets, being depreciated	<u>9,771,787</u>	<u>380,111</u>	<u>84,720</u>	<u>10,067,178</u>
Less accumulated depreciation for:				
Buildings	460,259	95,021	-	555,280
Road network	1,331,447	130,309	-	1,461,756
Equipment	386,327	45,576	46,121	385,782
Land improvements	130,823	19,867	-	150,690
Vehicles	238,121	51,282	25,664	263,739
Total accumulated depreciation	<u>2,546,977</u>	<u>342,055</u>	<u>71,785</u>	<u>2,817,247</u>
Total capital assets, being depreciated, net	<u>7,224,810</u>	<u>38,056</u>	<u>12,935</u>	<u>7,249,931</u>
Governmental activities capital assets, net	<u>\$7,586,009</u>	<u>\$ 38,056</u>	<u>\$ 12,935</u>	<u>\$7,611,130</u>

Depreciation expense was charged to business-type activities as follows:

Water	\$ 35,757
Sewer	<u>43,295</u>
	<u>\$ 79,052</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Capital assets, being depreciated				
Distribution plant	2,429,900	-	-	2,429,900
Equipment	510,311	-	-	510,311
Total capital assets, being depreciated	<u>2,940,211</u>	<u>-</u>	<u>-</u>	<u>2,940,211</u>
Less accumulated depreciation for:				
Distribution plant	994,913	55,378	-	1,050,291
Equipment	291,326	23,674	-	315,000
Total accumulated depreciation	<u>1,286,239</u>	<u>79,052</u>	<u>-</u>	<u>1,365,291</u>
Total capital assets, being depreciated, net	<u>1,653,972</u>	<u>(79,052)</u>	<u>-</u>	<u>1,574,920</u>
Business-type activities capital assets, net	<u>\$ 1,665,972</u>	<u>\$ (79,052)</u>	<u>\$ -</u>	<u>\$ 1,586,920</u>

**D. Long-Term Debt**

General Obligation Bonds: The City issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The original principle amount of the General Obligation bonds previously issued by the City was \$6,221,256. General obligation bonds currently outstanding are as follows:

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
G.O. Crossover Refunding bonds of 2013A of \$1,895,000. Due in annual installments of \$140,000 to \$175,000 through February 1, 2029	1.00% to 2.50%	\$ 1,895,000
G.O. Improvement bonds of 2013A of \$245,000. Due in annual installments of \$20,000 to \$25,000 through February 1, 2023	1.00% to 2.00%	220,000
G.O. Improvement bonds of 2007 of \$50,000. Due in annual installments of \$5,000 through February 1, 2018	4.00% to 4.20%	20,000
G.O. Capital Improvement Plan Bonds of 2008 of \$2,500,000. Due in annual installments of \$100,000 to \$185,000 through February 1, 2029	3.50% to 4.90%	2,075,000
Minnesota Public Facilities Authority G.O. Improvement Note of 2010 of \$576,256. Due in annual installments of \$25,000 to \$31,000 through August 20, 2030	1.643%	445,000
G.O. Bonds of 2010A of \$955,000. Due in annual installments of \$40,000 to \$70,000 through February 20, 2031	2.00% to 4.10%	865,000
		<u>\$ 5,520,000</u>

Revenue Bonds: The City issued general obligation revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. Revenue Bonds currently outstanding are as follows.

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
G.O. Water Revenue bonds of 2007 of \$395,000. Due in annual installments of \$40,000 to \$50,000 through February 1, 2018	4.00% to 4.20%	<u>\$ 180,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 190,000	\$ 177,791	\$ 40,000	\$ 6,655
2016	200,000	171,719	45,000	4,912
2017	205,000	165,082	45,000	3,045
2018	351,000	156,605	50,000	1,050
2019	356,000	146,239	-	-
2020-2024	1,913,000	559,163	-	-
2025-2029	2,139,000	227,769	-	-
2030-2034	166,000	6,147	-	-
<b>Total</b>	<b>\$ 5,520,000</b>	<b>\$ 1,610,515</b>	<b>\$ 180,000</b>	<b>\$ 15,662</b>

Changes in Long-Term Liabilities. During the year ended December 31, 2014, the following changes occurred in long-term debt:

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
<b>Governmental Activities:</b>					
Debt Payable:					
General obligation bonds	\$ 5,709,000	\$ -	\$ 189,000	\$ 5,520,000	\$ 190,000
Compensated absences	7,530	3,059	-	10,589	-
Governmental activity					
Long-term liabilities	<u>\$ 5,716,530</u>	<u>\$ 3,059</u>	<u>\$ 189,000</u>	<u>\$ 5,530,589</u>	<u>\$ 190,000</u>
 Refunding Bonds Included in Governmental Activities	<u>\$ 1,895,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,895,000</u>	<u>\$ -</u>
 <b>Business-Type Activities:</b>					
Revenue bonds	\$ 220,000	\$ -	\$ 40,000	\$ 180,000	\$ 40,000
Compensated absences	3,911	661	-	4,572	-
Business-type activity					
Long-term liabilities	<u>\$ 223,911</u>	<u>\$ 661</u>	<u>\$ 40,000</u>	<u>\$ 184,572</u>	<u>\$ 40,000</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$4,254,876. The computed legal debt margin as of December 31, 2014, equals \$4,254,876.

**E. Inter-fund Transfers**

Inter-fund transfers for the year ended December 31, 2014, consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u>		
	2008 Debt Service Fund	Other Governmental Funds	Total
Enterprise fund - water	\$ 50,000	\$ 32,700	\$ 82,700
Enterprise fund - sewer	50,000	-	50,000
<b>Total</b>	<b><u>\$ 100,000</u></b>	<b><u>\$ 32,700</u></b>	<b><u>\$ 132,700</u></b>

Purpose for Inter-Fund Transfers:

The water and sewer funds each transferred \$50,000 to the 2008 Debt Service Fund to pay principal and interest on debt.

The water fund transferred \$32,700 to the 2010 Debt Service Fund to pay principal and interest on debt.

**F. Fund Balances and Net Position**

Balances in Assigned Fund Balances as of December 31, 2014:

	<u>General Fund</u>
Assigned for police (CRP)	\$ 45,000
Assigned for sidewalks	50,000
<b>Total</b>	<b><u>\$ 95,000</u></b>

Balances in Restricted Fund Balances as of December 31, 2014:

Restricted for 2008 Debt Service	\$ 1,782,434
Restricted for 2010 Debt Service	279,958
Restricted for Joan Lane Debt Service	43,308
Restricted for Debt Service	31,401
Restricted for Special Revenue	61,881
<b>Total</b>	<b><u>\$ 2,198,982</u></b>

Restricted special revenue funds are comprised of the following balances: EDA - \$9,265; EDA Revolving - \$34,201; Tax Increment Financing District 1-2 - \$16,474; and Small Cities - \$1,941.

Balances in Restricted Net position as of December 31, 2014:

Restricted for EDA	\$ 9,773
Restricted for EDA Revolving	48,121
Restricted for Tax Increment District 1-2	16,474
Small Cities	1,941
<b>Total</b>	<b><u>\$ 76,309</u></b>

## **Note 4 - Pension Plans**

### **A. Public Employees Retirement Association**

#### **1. Plan Description**

All full-time and certain part-time employees of the City of Eagle Lake are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service.

For all PEPFF members and for GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP and PEPFF. That report may be obtained on the web at [www.mnpera.org](http://www.mnpera.org), by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

## **2. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by State Statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary. PEPFF members were required to contribute 9.60% of their annual covered salary. The City of Eagle Lake is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERP members, 7.25% for Coordinated Plan members, and 14.40% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012, were \$15,472, \$15,034, and \$16,904, respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$20,239, \$15,466, and \$17,106, respectively. The City's contributions were equal to the contractually required contributions for each year as set by State Statute.

## **Note 5 - Other Information**

### **A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In accordance with Section C50 of the 1995 "Codification of Governmental Accounting and Financial Reporting Standards" of the Governmental Accounting Standards Board, the City accounts for and reports risk management activities in the General Fund within the constraints of the modified accrual basis of accounting.

The City has joined together with other governmental entities in the State of Minnesota in the League of Minnesota Cities Insurance Trust Group Self-Insured Workers' Compensation Plan, a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to this plan for its workers' compensation coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of this plan believe assessment to participating Cities for future losses sustained is extremely remote.

The City has joined together with other governmental entities in the State of Minnesota in the League of Minnesota Cities Insurance Trust Group Self-Insured General Property and Casualty Insurance Plan, a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to this plan for its general liability and property coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of this plan believe assessment to participating Cities for future losses sustained is extremely remote.

The City is self-insured for unemployment compensation. The State of Minnesota allows Cities to levy local taxpayers for estimated future unemployment claims. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**B. Contingencies**

The City participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant.

**C. Subsequent Event**

Subsequent to year end, the City advance paid the entire outstanding balance of the G.O. Water Revenue and Improvement Bonds of 2007, series A. The principal retired was \$20,000 by the Cate Street debt service fund and \$180,000 by the Water enterprise fund. The bonds were originally due through February 1, 2018. The result of paying off the bonds early is an interest savings of \$1,255 for the Cate Street debt service fund and \$11,925 for the Water enterprise Fund.



Required Supplementary Information  
December 31, 2014

## City of Eagle Lake

City of Eagle Lake

Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – General Fund  
Year Ended December 31, 2014

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Taxes:				
Property	\$ 377,571	\$ 377,571	\$ 387,095	\$ 9,524
Franchise	29,200	29,200	38,903	9,703
Special assessments	2,800	2,800	8,846	6,046
Licenses and permits	51,450	51,450	139,081	87,631
Intergovernmental revenue				
Local government aid	624,953	624,953	636,628	11,675
Other state aids and grants	-	-	5,342	5,342
Charges for services				
General government	19,475	19,475	34,504	15,029
Police and fire contracts	78,273	78,273	73,306	(4,967)
Garbage and recycling	198,797	198,797	190,283	(8,514)
Fines and forfeits	8,000	8,000	8,053	53
Interest earnings	5,000	5,000	6,994	1,994
Refunds and reimbursements	5,000	5,000	21,717	16,717
Miscellaneous revenue	18,249	18,249	113,750	95,501
Total revenues	<u>1,418,768</u>	<u>1,418,768</u>	<u>1,664,502</u>	<u>245,734</u>
Expenditures:				
General government				
Mayor and council	22,565	22,565	17,740	4,825
Administration and finance	114,854	114,854	127,003	(12,149)
Other general government	232,348	232,348	269,974	(37,626)
Capital outlay	57,000	57,000	94,592	(37,592)
Public safety				
Police				
Current expenditures	168,644	168,644	201,955	(33,311)
Capital outlay	104,334	104,334	63,569	40,765
Fire				
Current expenditures	88,868	88,868	105,180	(16,312)
Capital outlay	96,272	96,272	12,719	83,553
Other protection				
Current expenditures	2,788	2,788	3,389	(601)
Capital outlay	1,000	1,000	14,606	(13,606)
Streets and highways				
Street maintenance	135,124	135,124	129,224	5,900
Street lighting	43,000	43,000	36,168	6,832
Street construction - capital outlay	2,200	2,200	211,836	(209,636)
Sanitation				
Garbage and other refuse collection	144,712	144,712	150,099	(5,387)
Culture and recreation				
Parks and recreation - current expenditures	71,871	71,871	64,158	7,713
Parks and recreation - capital outlay	24,244	24,244	11,627	12,617
Total expenditures	<u>1,309,824</u>	<u>1,309,824</u>	<u>1,513,839</u>	<u>(204,015)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>108,944</u>	<u>108,944</u>	<u>150,663</u>	<u>41,719</u>

City of Eagle Lake  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual –  
 General Fund (Continued)  
 Year Ended December 31, 2014

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	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Other Financing Sources				
Transfers out	<u>(70,000)</u>	<u>(70,000)</u>	<u>-</u>	<u>70,000</u>
Net Change in Fund Balance	38,944	38,944	150,663	111,719
Fund Balance - Beginning	<u>1,674,797</u>	<u>1,674,797</u>	<u>1,674,797</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,713,741</u>	<u>\$ 1,713,741</u>	<u>\$ 1,825,460</u>	<u>\$ 111,719</u>

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2014, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the government's manager so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The government's council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the government's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

### **B. Excess of Expenditures over Appropriations**

For the year ended December 31, 2014, expenditures exceeded appropriations in the General Fund by \$204,015. This over expenditure was funded by greater than anticipated revenues.

City of Eagle Lake  
Combining Balance Sheet – Nonmajor Governmental Funds  
December 31, 2014

	Special Revenue Funds				Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
	EDA	EDA Revolving	Tax Increment District 1-2	Small Cities		Small Cities	
Assets							
Cash and cash equivalents	\$ 11,068	\$ 34,201	\$ 16,474	\$ 1,941	\$ 63,684	\$ 31,341	\$ 95,025
Receivables							
Notes	-	13,920	-	-	13,920	-	13,920
Taxes	705	-	-	-	705	60	765
Total assets	<u>\$ 11,773</u>	<u>\$ 48,121</u>	<u>\$ 16,474</u>	<u>\$ 1,941</u>	<u>\$ 78,309</u>	<u>\$ 31,401</u>	<u>\$ 109,710</u>
Liabilities							
Accounts payable	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ 2,000</u>
Deferred Inflows from Resources							
Unavailable revenue	<u>508</u>	<u>13,920</u>	<u>-</u>	<u>-</u>	<u>14,428</u>	<u>-</u>	<u>14,428</u>
Fund Balances							
Restricted	<u>9,265</u>	<u>34,201</u>	<u>16,474</u>	<u>1,941</u>	<u>61,881</u>	<u>31,401</u>	<u>93,282</u>
Total Liabilities, Deferred Inflows from Resources, and Fund Balances	<u>\$ 11,773</u>	<u>\$ 48,121</u>	<u>\$ 16,474</u>	<u>\$ 1,941</u>	<u>\$ 78,309</u>	<u>\$ 31,401</u>	<u>\$ 109,710</u>

City of Eagle Lake

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds  
Year Ended December 31, 2014

	Special Revenue Funds				Debt Service Fund	
	EDA	EDA Revolving	Tax Increment District 1-2	Small Cities	Total Special Revenue	Cate Street
Revenues						
Property taxes	\$ 16,904	\$ -	\$ 79,036	\$ -	\$ 95,940	\$ 4,756
Investment Earnings	6	32	-	-	38	-
Miscellaneous	-	5,511	-	-	5,511	-
Total revenues	<u>16,910</u>	<u>5,543</u>	<u>79,036</u>	<u>-</u>	<u>101,489</u>	<u>4,756</u>
Expenditures						
Economic Development	17,235	-	76,610	-	93,845	-
Debt Service						
Principal	-	-	-	-	-	5,000
Interest and other charges	-	-	-	-	-	933
Total expenditures	<u>17,235</u>	<u>-</u>	<u>76,610</u>	<u>-</u>	<u>93,845</u>	<u>5,933</u>
Net Change in Fund Balances	(325)	5,543	2,426	-	7,644	(1,177)
Fund Balance - Beginning	<u>9,590</u>	<u>28,658</u>	<u>14,048</u>	<u>1,941</u>	<u>54,237</u>	<u>32,578</u>
Fund Balance - Ending	<u>\$ 9,265</u>	<u>\$ 34,201</u>	<u>\$ 16,474</u>	<u>\$ 1,941</u>	<u>\$ 61,881</u>	<u>\$ 31,401</u>

City of Eagle Lake  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Major and Nonmajor  
Governmental Funds - Continued  
Year Ended December 31, 2014

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 100,696	\$ 517,100	\$ 617,796
Franchise	-	38,903	38,903
Special assessments	-	99,124	99,124
Licenses and Permits	-	139,081	139,081
Intergovernmental Revenue:			
Local government aid	-	599,953	599,953
PERA aid	-	826	826
State police aid	-	15,232	15,232
State fire aid	-	21,443	21,443
Other state grants and aids	-	4,516	4,516
Charges for Services:			
Police and fire contracts	-	73,306	73,306
Garbage and recycling	-	190,283	190,283
Other service charges	-	34,504	34,504
Fines and Forfeits	-	8,053	8,053
Investment Earnings	38	18,122	18,160
Miscellaneous	5,511	135,467	140,978
Total revenues	<u>106,245</u>	<u>1,895,913</u>	<u>2,002,158</u>

City of Eagle Lake  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Major and Nonmajor  
Governmental Funds - Continued  
Year Ended December 31, 2014

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Expenditures			
General Government			
Mayor and council	-	17,740	17,740
Administration and finance	-	127,003	127,003
Other general government	-	269,974	269,974
Capital outlay	-	94,592	94,592
Public Safety			
Police - current expenditures	-	201,955	201,955
Police - capital outlay	-	63,569	63,569
Fire - current expenditures	-	105,180	105,180
Fire - capital outlay	-	12,719	12,719
Other protection	-	3,389	3,389
Other protection - capital outlay	-	14,606	14,606
Streets and Highways			
Street maintenance	-	129,224	129,224
Street lighting	-	36,168	36,168
Street construction - capital outlay	-	211,836	211,836
Sanitation			
Garbage and other refuse collection	-	150,099	150,099
Culture and Recreation			
Parks & Recreation - current expenditures	-	64,158	64,158
Parks & Recreation - capital outlay	-	11,627	11,627
Economic Development	93,845	-	93,845
Debt Service			
Principal	5,000	184,000	189,000
Interest and other charges	933	195,699	196,632
Total expenditures	<u>99,778</u>	<u>1,893,538</u>	<u>1,993,316</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,467</u>	<u>2,375</u>	<u>8,842</u>
Other Financing Sources (Uses)			
Transfers in	-	132,700	132,700
Net Change in Fund Balances	6,467	135,075	141,542
Fund Balance - Beginning	<u>86,815</u>	<u>3,796,085</u>	<u>3,882,900</u>
Fund Balance - Ending	<u>\$ 93,282</u>	<u>\$ 3,931,160</u>	<u>\$ 4,024,442</u>



## Independent Auditor's Report on Minnesota Legal Compliance

Honorable Mayor and City Council  
City of Eagle Lake  
Eagle Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eagle Lake, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes Sec. 6.65 contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe the City of Eagle Lake failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Eagle Lake's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the City of Eagle Lake and the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota  
June 29, 2015