

CITY OF PEQUOT LAKES, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2013

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INTRODUCTORY SECTION



**CITY OF PEQUOT LAKES, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2013**

Position	Name	Term Expires
<u>Elected Officials</u>		
Mayor	Nancy Adams	December 31, 2014
Council Member	Jerry Akerson	December 31, 2014
Council Member	Tyler Gardner	December 31, 2016
Council Member	Scott Pederson	December 31, 2016
Council Member	Dave Sjoblad	December 31, 2014
<u>Appointed</u>		
Clerk/Treasurer	Sandra Peine	
Attorney	Clyde Ahlquist	
Auditor	CliftonLarsonAllen LLP	

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Pequot Lakes
Pequot Lakes, Minnesota

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 Pequot Lakes (City), Minnesota, as of and for the year ended December 31, 2013, 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 City'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 City'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, as of December 31, 2013, the respective changes in financial position and, where applicable, its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the fiscal year ended December 31, 2013, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 65, the City reported a change in accounting principle (See Note 7). Beginning net position was restated as debt issuance costs, except any portion related to prepaid insurance costs, are now recognized as an expense in the period incurred. Debt issuance costs were previously reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. The auditors' opinion was not modified with regards to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress on pages 5-16, 56-59, and 60-61, respectively, 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.

Supplementary Information

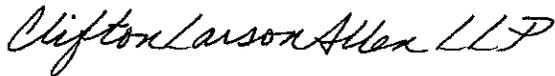
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial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

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 taken as a whole.

Honorable Mayor and
Members of the City Council
City of Pequot Lakes

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 25, 2014

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

This section of the City of Pequot Lakes' (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2013. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year, 2013 and the prior year, 2012 is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 include the following:

- ◆ City-wide net position increased 3% over the prior year. The primary reason for the increase is due to additional charges for services received.
- ◆ Overall, governmental fund-level revenues totaled \$2,150,711 and were \$193,552 more than expenditures. This excess of revenues over expenditures is due to a decrease in capital outlay.
- ◆ The General Fund's fund balance increased \$80,249 (6%) from the prior year due mainly to a decrease in capital outlay expenditures relating to highways and streets.
- ◆ The Fire Department Fund's fund balance increased \$55,985 (48%) from the prior year due mainly to the removal of debt principal and interest payments.
- ◆ The Water Enterprise Fund net position increased \$66,041 (8.8%) from the prior year due to an increase in charges for services. Sewer Enterprise Fund net position increased \$138,720 (11%) from the prior year due to an increase in charges for services and a slight decrease in expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- ◆ The first two statements are City-wide financial statements which provide both short-term and long-term information about the City's overall financial status.
- ◆ The remaining statements are fund financial statements which focus on individual parts of the City, reporting the City's operations in more detail than the City-wide statements.
 - The governmental funds statements tell how basic services such as general government, public safety, and highways and streets were financed in the short term as well as what remains for future spending.

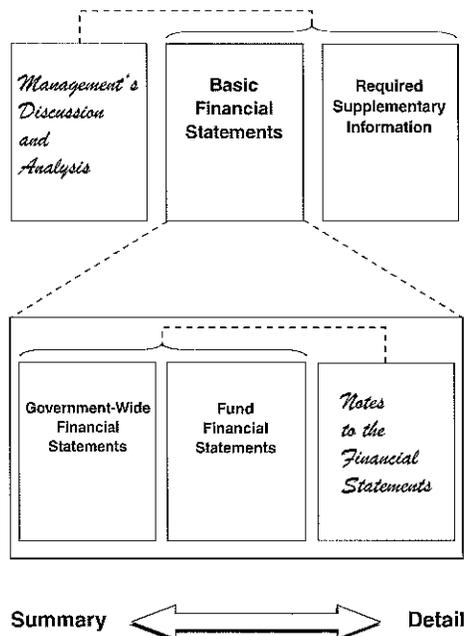
**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2
Major Features of the City's Financial Statements**

Type of Statements	Government-Wide	Governmental Funds	Proprietary Funds
Scope	Entire City's government (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary.	The activities of the City that operate similar to private businesses: water and sewer.
Required Financial Statements	Statement of net position.	Balance sheet.	Statement of net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of revenues, expenses, and changes in net position and statement of cash flows.
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of Asset and Deferred Outflow of Resources /Liability and Deferred Inflow of Resources Information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that came due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.

City-Wide Statements

The City-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

City-Wide Statements (Continued)

The two City-wide statements report the City's net position and how they have changed. Net position – the difference between the City's assets, deferred outflows, deferred inflows and liabilities – is one way to measure the City's financial health or position.

- ◆ Over time, increases or decreases in the City's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- ◆ To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of City buildings and other facilities.

In the City-wide financial statements the City's activities are shown in two categories:

- ◆ Governmental activities – The City's basic services are included here. Property taxes, special assessments and state aids finance most of these activities.
- ◆ Business-type activities – The City's enterprise fund operations are included here. Charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds – focusing on its most significant or "major" funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs:

- ◆ Some funds are required by state law and by bond covenants.
- ◆ The City establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The City has two kinds of funds:

- ◆ Governmental funds – The City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the City-wide statements, we provide additional information after the governmental funds statements that explain the relationship (or differences) between them.
- ◆ Proprietary funds – The City reports two proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utilities. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's total net positions were \$10,538,005 on December 31, 2013 (see Table A-1).

**Table A-1
The City's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 2,492,637	\$ 2,350,472	\$ 1,501,148	\$ 1,432,990	\$ 3,993,785	\$ 3,783,462
Capital and Noncurrent Assets	6,483,536	6,562,351	2,040,768	2,030,799	8,524,304	8,593,150
Total Assets	8,976,173	8,912,823	3,541,916	3,463,789	12,518,089	12,376,612
Current Liabilities	179,961	229,077	208,317	232,203	388,278	461,280
Long-Term Liabilities	428,395	448,152	1,163,411	1,217,174	1,591,806	1,665,326
Total Liabilities	608,356	677,229	1,371,728	1,449,377	1,980,084	2,126,606
Net Position						
Net Investment in Capital Assets	6,144,164	6,186,400	838,534	758,441	6,982,698	6,944,841
Restricted	199,398	161,081	-	-	199,398	161,081
Unrestricted	2,024,255	1,888,113	1,331,654	1,255,971	3,355,909	3,144,084
Total Net Position	\$ 8,367,817	\$ 8,235,594	\$ 2,170,188	\$ 2,014,412	\$ 10,538,005	\$ 10,250,006

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$2,696,062 the year ended December 31, 2013. Property taxes and intergovernmental revenues accounted for 67% of total revenue for the year (see Table A-2).

Table A-2
Change in Net Position

	Governmental Activities		Total % Change	Business-Type Activities		Total % Change	Total		Total % Change
	2013	2012		2013	2012		2013	2012	
REVENUES									
Program Revenues									
Charges for Services	\$ 327,211	\$ 321,193	1.9 %	\$ 509,060	\$ 464,561	9.6 %	\$ 836,271	\$ 785,754	6.4 %
Operating Grants and Contributions	150,476	191,662	(21.5)	3,400	-	100.0	153,876	191,662	(19.7)
Capital Grants and Contributions	14,694	999,069	(98.5)	-	-	-	14,694	999,069	(98.5)
General Revenues									
Property Taxes	1,583,621	1,572,603	0.7	-	-	-	1,583,621	1,572,603	0.7
Unrestricted State Aid	62,084	96,274	(35.5)	-	-	-	62,084	96,274	(35.5)
Investment Earnings	6,217	14,348	(56.7)	3,704	10,326	(64.1)	9,921	24,674	(59.8)
Other	30,595	40,117	(23.7)	5,000	5,000	-	35,595	45,117	(21.1)
Total Revenues	2,174,898	3,235,286	(32.8)	521,164	479,887	8.6	2,696,062	3,715,153	(27.4)
EXPENSES									
General Government	490,702	490,853	(0.0)	-	-	-	490,702	490,853	(0.0)
Public Safety	898,891	836,207	7.5	-	-	-	898,891	836,207	7.5
Highways and Streets	469,298	456,633	2.8	-	-	-	469,298	456,633	2.8
Sanitation	11,974	11,797	1.5	-	-	-	11,974	11,797	1.5
Water	-	-	-	193,638	229,691	(15.7)	193,638	229,691	(15.7)
Sewer	-	-	-	122,765	139,654	(12.1)	122,765	139,654	(12.1)
Culture and Recreation	52,915	50,899	4.0	-	-	-	52,915	50,899	4.0
Economic Development	104,538	96,581	8.2	-	-	-	104,538	96,581	8.2
Interest	14,357	18,264	(21.4)	-	-	-	14,357	18,264	(21.4)
Total Expenses	2,042,675	1,961,234	4.2	316,403	369,345	(14.3)	2,359,078	2,330,579	1.2
CHANGE IN NET POSITION	132,223	1,274,032	(89.6)	204,761	110,542	85.2	336,984	1,384,574	(75.7)
Net Position - Beginning of Year	8,235,594	6,961,562		2,014,412	1,903,870		10,250,006	8,865,432	
Change in Accounting Principle	-	-		48,985	-		48,985	-	
Net Position - Beginning of Year, As Restated	<u>8,235,594</u>	<u>6,961,562</u>	18.3	<u>1,965,427</u>	<u>1,903,870</u>	3.2	<u>10,201,021</u>	<u>8,865,432</u>	15.1
NET POSITION - END OF YEAR	\$ 8,367,817	\$ 8,235,594		\$ 2,170,188	\$ 2,014,412		\$ 10,538,005	\$ 10,250,006	

Total revenues surpassed expenses, increasing net position \$336,984 over last year.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The City-wide cost of all governmental activities this year was \$2,042,675.

- ◆ Some of the cost was paid by the users of the City's programs \$327,211.
- ◆ The federal and state governments subsidized certain programs with grants and contributions \$165,170.
- ◆ The remainder of the City's governmental activities costs of \$1,550,294, however, was paid for by City taxpayers, the taxpayers of our state, and other miscellaneous revenues.

Figure A-3 Sources of City's Revenues for Fiscal 2013

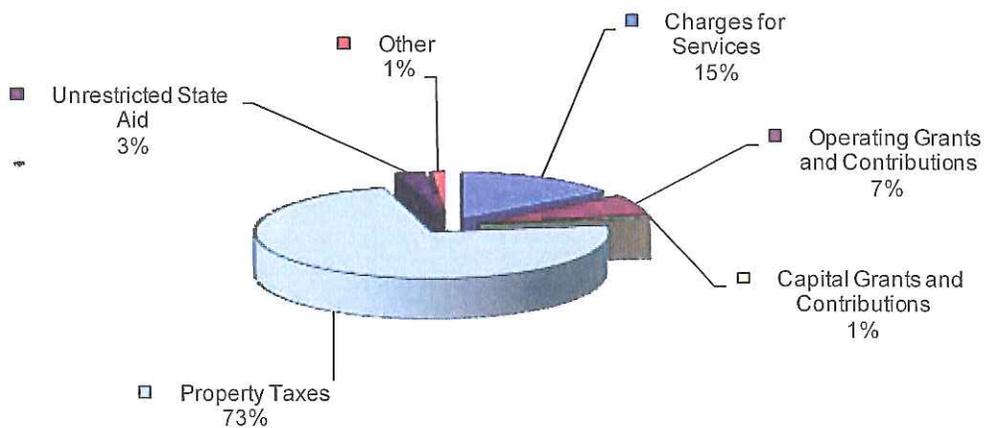
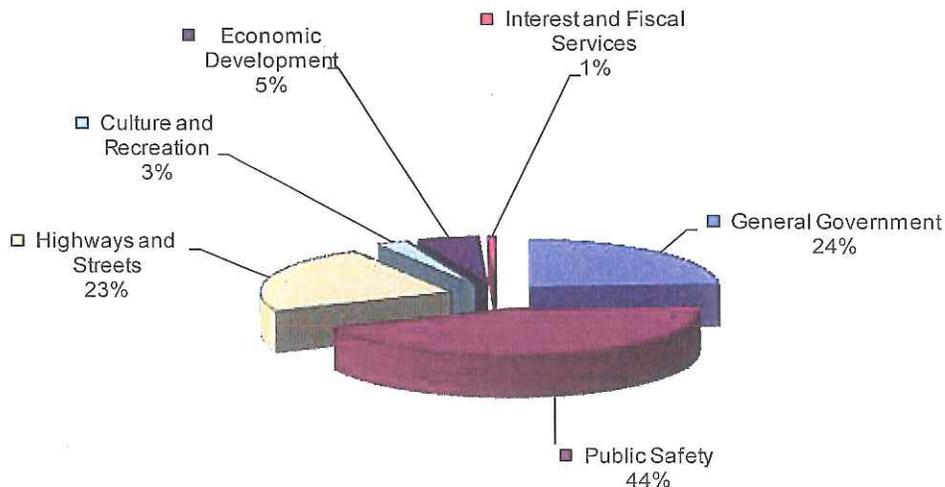


Figure A-4 City's Expenses for Fiscal 2013



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**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

**Table A-3
Total and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net (Revenue) Cost of Providing Services		Percentage Change
	2013	2012		2013	2012	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 490,702	\$ 490,853	(0.0)%	\$ 454,291	\$ 455,117	(0.2)%
Public Safety	898,891	836,207	7.5	538,919	440,824	22.3
Highways and Streets	469,298	456,633	2.8	468,829	456,589	2.7
Sanitation	11,974	11,797	1.5	(4,889)	(6,661)	26.6
Culture and Recreation	52,915	50,899	4.0	(11,526)	(997,179)	98.8
Economic Development	104,538	96,581	8.2	90,313	82,356	9.7
Interest	14,357	18,264	(21.4)	14,357	18,264	(21.4)
Total	<u>\$ 2,042,675</u>	<u>\$ 1,961,234</u>	4.2	<u>\$ 1,550,294</u>	<u>\$ 449,310</u>	245.0

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

The financial performance of the City is reflected in its governmental funds as well. As the City completed the year, its governmental funds reported a combined fund balance of \$2,212,306.

Revenues for the City's governmental funds were \$2,150,711, while total expenditures were \$1,969,984.

The General Fund's fund balance increased \$80,249 from the prior year. This is due primarily to a decrease in capital outlay expenditures relating to highways and streets.

The Fire Fund's fund balance increased \$55,985 from the prior year, due the removal of debt principal and interest payments.

The Business Park Fund's fund balance increased \$42,942 from the prior year, because there were minimal business park expenditures.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL (CONTINUED)

The Water Enterprise Fund's net position increased \$66,041 from the prior year. This is due primarily to the increased revenues for charges for services.

The Sewer Enterprise Fund's net position increased \$138,720. This increase is due to an increase in sewer sales revenue and a slight decrease in expenses.

GENERAL FUND

The following schedule presents a summary of General Fund Revenues:

**Table A-4
General Fund Revenues**

	Year Ended		Change	
	December 31,	December 31,	Increase	Percent
	2013	2012	(Decrease)	
Taxes and Specials	\$ 1,431,664	\$ 1,478,517	\$ (46,853)	(3.2)%
Intergovernmental	129,402	113,249	16,153	14.3
Charges for Services	128,365	117,537	10,828	9.2
Interest	4,013	9,401	(5,388)	(57.3)
Miscellaneous	82,460	105,330	(22,870)	(21.7)
Total General Fund Revenue	<u>\$ 1,775,904</u>	<u>\$ 1,824,034</u>	<u>\$ (48,130)</u>	<u>(2.6)</u>

Total General Fund revenue decreased by \$48,130, or (2.6%), from the previous year. This is due primarily to a decrease in tax revenues.

The following schedule presents a summary of General Fund Expenditures:

**Table A-5
General Fund Expenditures**

	Year Ended		Change	
	December 31,	December 31,	Increase	Percent
	2013	2012	(Decrease)	
General Government	\$ 442,617	\$ 439,717	\$ 2,900	0.7 %
Public Safety	714,867	670,845	44,022	6.6
Highways and Streets	415,862	614,093	(198,231)	(32.3)
Sanitation	11,974	11,797	177	1.5
Culture and Recreation	53,185	29,473	23,712	80.5
Economic Development	34,589	32,908	1,681	5.1
Debt Service	33,178	32,436	742	2.3
Total Expenditures	<u>\$ 1,706,272</u>	<u>\$ 1,831,269</u>	<u>\$ (124,997)</u>	<u>(6.8)</u>

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

Over the course of the year, the City did not revise the annual operating budget. Historically, the City has not made budget amendments during the year.

- ◆ Actual revenues were \$85,585 more than expected due to an increase in intergovernmental revenues and gifts and contributions.
- ◆ The actual expenditures were \$12,803 over budgeted expenditures due to various departments exceeding their expenditure budgets.

CONSTRUCTION PROJECTS AND DEBT SERVICE

Tax revenues and charges for utility services are used to fund the bond payments for all previous bond issues. The City did not complete any large infrastructure projects in 2013.

CAPITAL ASSETS

By the end of 2013, the City had invested approximately \$15,200,000 in a broad range of capital assets, including buildings, computers, improvements, equipment, and infrastructure. (See Table A-6). (More detailed information about capital assets can be found in Note 3.A.2 to the financial statements.) Total depreciation expense for the year was \$423,579 (including the enterprise funds).

**Table A-6
The City's Capital Assets**

	Governmental Activities		Percent Change	Business-Type Activities		Percent Change	Total		Percent Change
	2013	2012		2013	2012		2013	2012	
Land	\$ 1,524,241	\$ 1,520,693	0.2 %	\$ 178,167	\$ 178,167	- %	\$ 1,702,408	\$ 1,698,860	0.2 %
Construction-in-Progress	20,146	-	100.0	-	-	-	20,146	-	100.0
Infrastructure	5,332,900	5,254,405	1.5	393,117	393,117	-	5,726,017	5,647,522	1.4
Buildings	1,536,861	1,500,001	2.5	1,125,329	1,088,469	3.4	2,662,190	2,588,470	2.8
Machinery, Equipment, and Vehicles	1,946,682	1,848,649	5.3	3,125,927	3,083,236	2.0	5,072,609	4,911,885	3.3
Less: Accumulated Depreciation	(3,977,294)	(3,561,397)	8.9	(2,781,772)	(2,692,190)	3.3	(6,659,066)	(6,253,587)	6.5
Total	\$ 6,483,536	\$ 6,562,351	(1.2)	\$ 2,040,768	\$ 2,030,799	0.5	\$ 8,524,304	\$ 8,593,150	(0.8)

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

LONG-TERM LIABILITIES

At year-end, the City had \$1,715,306 (net of related discounts and premiums) in long-term liabilities outstanding.

- ◆ The City's governmental activities total long-term debt decreased \$12,436 due primarily to change in principle payments. The City's business-type activities total long-term debt decreased \$68,953 due primarily to the repayment of general obligation bonds. Additional information on the City's long-term liabilities can be found in Note 3.C.1.

**Table A-7
The City's Long-Term Liabilities**

	2013	2012	Percentage Change
GOVERNMENTAL ACTIVITIES			
Equipment Certificates	\$ 53,000	\$ 78,000	(32.1)%
Capital Leases	286,372	297,951	(3.9)
Compensated Absences Payable	40,415	33,057	22.3
Other Postemployment Benefit Payable	116,322	99,537	16.9
Total	<u>\$ 496,109</u>	<u>\$ 508,545</u>	(2.4)
BUSINESS-TYPE ACTIVITIES			
General Obligation Bonds	\$ 1,202,234	\$ 1,272,357	(5.5)%
Compensated Absences Payable	2,465	2,854	(13.6)
Other Postemployment Benefit Payable	14,498	12,939	12.0
Total	<u>\$ 1,219,197</u>	<u>\$ 1,288,150</u>	(5.4)

FACTORS BEARING ON THE CITY'S FUTURE

Highway 371 Expansion

The proposed Highway 371 project is expected to begin in 2018. Federal and State funding may have an influence on whether this project takes place in 2018 or perhaps beyond that date. MnDOT will begin right-of-way acquisition in 2015. The City has begun preparing for this project. Issues related to this highway project that will affect the City include roads that will possibly be turned back to the City, County Road 11 as the major corridor entrance to the City, and the City's spray irrigation field.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandy Peine, City Clerk-Treasurer, Nancy Malecha, Finance Administrator, or Nancy Adams, Mayor at (218) 568-5222.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 2,222,246	\$ 1,327,622	\$ 3,549,868
Petty Cash and Change Funds	942	-	942
Taxes Receivable			
Unapportioned	30,617	-	30,617
Delinquent	167,800	-	167,800
Special Assessments Receivable			
Delinquent	2,313	-	2,313
Noncurrent	-	1,351	1,351
Accounts Receivable, Net of Allowance	2,123	172,175	174,298
Accrued Interest Receivable	361	-	361
Due from Other Governments	438	-	438
Loans Receivable	40,013	-	40,013
Land Held for Resale	25,784	-	25,784
Capital Assets not Being Depreciated			
Land	1,524,241	178,167	1,702,408
Construction in Progress	20,146	-	20,146
Capital Assets Being Depreciated			
Building (Net)	1,055,571	72,483	1,128,054
Machinery, Vehicles, Furniture and Equipment (Net)	571,165	1,472,119	2,043,284
Infrastructure (Net)	3,312,413	317,999	3,630,412
Total Assets	8,976,173	3,541,916	12,518,089
LIABILITIES			
Accounts Payable	91,548	135,001	226,549
Salaries Payable	15,899	774	16,673
Due to Other Governments	2,771	6,152	8,923
Accrued Interest Payable	2,029	10,604	12,633
Compensated Absences Payable - Due Within One Year	18,809	786	19,595
General Obligation Refunding Bonds Payable - Due Within One Year	-	55,000	55,000
Equipment Certificates - Due Within One Year	26,000	-	26,000
Capital Leases Payable - Due Within One Year	22,905	-	22,905
Compensated Absences Payable - Due in More than One Year	21,606	1,679	23,285
General Obligation Refunding Bonds Payable - Due in More than One Year	-	1,147,234	1,147,234
Equipment Certificates - Due in More than One Year	27,000	-	27,000
Capital Leases Payable - Due in More than One Year	263,467	-	263,467
Other Postemployment Benefits Payable - Due in More than One Year	116,322	14,498	130,820
Total Liabilities	608,356	1,371,728	1,980,084
NET POSITION			
Net Investment in Capital Assets	6,144,164	838,534	6,982,698
Restricted for Library	82,017	-	82,017
Restricted for Forfeiture	42	-	42
Restricted for Park Dedication	28,285	-	28,285
Restricted for Loans Receivable	40,013	-	40,013
Restricted for Economic Development	17,583	-	17,583
Restricted for Debt Service	31,458	-	31,458
Unrestricted	2,024,255	1,331,654	3,355,909
Total Net Position	\$ 8,367,817	\$ 2,170,188	\$ 10,538,005

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

Functions/Programs	Expenses	Program Revenues		
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 490,702	\$ 32,103	\$ 4,308	\$ -
Public Safety	898,891	266,111	93,861	-
Highways and Streets	469,298	-	-	469
Sanitation	11,974	363	16,500	-
Culture and Recreation	52,915	28,634	35,807	-
Economic Development	104,538	-	-	14,225
Interest	14,357	-	-	-
Total Governmental Activities	2,042,675	327,211	150,476	14,694
Business-Type Activities				
Water	193,638	254,830	3,400	-
Sewer	122,765	254,230	-	-
Total Business-Type Activities	316,403	509,060	3,400	-
Total Primary Government	\$ 2,359,078	\$ 836,271	\$ 153,876	\$ 14,694

General Revenues

Property Taxes

Grants and Contributions not Restricted for a Particular Purpose

Investment Earnings

Miscellaneous

Gain on Sale of Capital Assets

Total General Revenues and Transfers

CHANGE IN NET POSITION

Net Position - Beginning of Year

Change in Accounting Principle (See Note 7)

Net Position - Beginning of Year, As Restated

NET POSITION - END OF YEAR

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (454,291)	\$ -	\$ (454,291)
(538,919)	-	(538,919)
(468,829)	-	(468,829)
4,889	-	4,889
11,526	-	11,526
(90,313)	-	(90,313)
(14,357)	-	(14,357)
(1,550,294)	-	(1,550,294)
-	64,592	64,592
-	131,465	131,465
-	196,057	196,057
(1,550,294)	196,057	(1,354,237)
1,583,621	-	1,583,621
62,084	-	62,084
6,217	3,704	9,921
27,636	5,000	32,636
2,959	-	2,959
1,682,517	8,704	1,691,221
132,223	204,761	336,984
8,235,594	2,014,412	10,250,006
-	48,985	48,985
8,235,594	1,965,427	10,201,021
\$ 8,367,817	\$ 2,170,188	\$ 10,538,005

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FUND FINANCIAL STATEMENTS

**CITY OF PEQUOT LAKES, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

ASSETS	Major Funds	
	General	Fire Department
Cash and Investments	\$ 1,428,990	\$ 177,651
Petty Cash and Change Funds	942	-
Taxes Receivable		
Current	29,577	-
Noncurrent	167,800	-
Special Assessments Receivable		
Delinquent	2,313	-
Accounts Receivable, Net of Allowance	473	850
Accrued Interest Receivable	361	-
Due from Other Governments	438	-
Due from Other Funds	-	-
Land Held for Resale	-	-
Loans Receivable	-	-
Total Assets	\$ 1,630,894	\$ 178,501
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 57,475	\$ 5,205
Due to Other Governments	2,771	-
Salaries Payable	15,899	-
Due to Other Funds	-	-
Total Liabilities	76,145	5,205
DEFERRED INFLOWS OF RESOURCES		
Unavailable for Special Assessments	2,313	-
Unavailable for Taxes	167,800	-
Total Deferred Inflows of Resources	170,113	-
FUND BALANCES (DEFICITS)		
Nonspendable	-	-
Restricted for Forfeiture	256	-
Restricted for Park Dedication	28,285	-
Restricted for Loans Receivable	-	-
Restricted for Other Governmental Funds	-	-
Restricted for Library	35,277	-
Committed for Library	82,017	-
Committed for Capital Outlay	186,749	84,219
Committed for Fire Protection Services	-	89,077
Committed for Business Park	-	-
Committed for Other Governmental Funds	-	-
Unassigned	1,052,052	-
Total Fund Balances (Deficits)	1,384,636	173,296
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,630,894	\$ 178,501

See accompanying Notes to Financial Statements.

Business Park	Other Governmental Funds	Total Governmental Funds
\$ 279,440	\$ 336,165	\$ 2,222,246
-	-	942
-	1,040	30,617
-	-	167,800
-	-	2,313
-	800	2,123
-	-	361
-	-	438
48,127	-	48,127
25,784	-	25,784
40,013	-	40,013
<u>\$ 393,364</u>	<u>\$ 338,005</u>	<u>\$ 2,540,764</u>

\$ -	\$ 28,868	\$ 91,548
-	-	2,771
-	-	15,899
-	48,127	48,127
-	76,995	158,345
-	-	2,313
-	-	167,800
-	-	170,113
25,784	-	25,784
-	-	256
-	-	28,285
88,140	-	88,140
-	50,666	50,666
-	-	35,277
-	-	82,017
-	-	270,968
-	-	89,077
279,440	-	279,440
-	270,190	270,190
-	(59,846)	992,206
<u>393,364</u>	<u>261,010</u>	<u>2,212,306</u>
<u>\$ 393,364</u>	<u>\$ 338,005</u>	<u>\$ 2,540,764</u>

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**CITY OF PEQUOT LAKES, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,212,306

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 6,483,536

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflow of resources in the governmental funds. 170,113

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Equipment Certificates	\$	(53,000)	
Capital Leases		(286,372)	
Compensated Absences		(40,415)	
Other Postemployment Benefits		(116,322)	
Accrued Interest Payable		(2,029)	
		(498,138)	(498,138)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 8,367,817

CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	Major Funds	
	General Fund	Fire Department
REVENUES		
Taxes	\$ 1,431,259	\$ -
Special Assessments	405	-
Licenses and Permits	15,005	-
Intergovernmental	129,402	49,080
Charges for Services	128,365	164,840
Fines and Forfeits	14,692	-
Gifts and Contributions	35,807	600
Interest on Investments	4,013	445
Miscellaneous	16,956	9,630
Total Revenues	1,775,904	224,595
EXPENDITURES		
CURRENT		
General Government	430,385	-
Public Safety	654,682	167,912
Highways and Streets	282,827	-
Sanitation	11,974	-
Culture and Recreation	37,227	-
Economic Development	34,589	-
CAPITAL OUTLAY		
General Government	12,232	-
Public Safety	60,185	698
Highways and Streets	133,035	-
Culture and Recreation	15,958	-
DEBT SERVICE		
Principal	21,445	-
Interest	11,733	-
Total Expenditures	1,706,272	168,610
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	69,632	55,985
OTHER FINANCING SOURCES (USES)		
Proceeds from Sale of Assets	751	-
Proceeds from Capital Lease	9,866	-
Total Other Financing Sources (Uses)	10,617	-
NET CHANGE IN FUND BALANCES	80,249	55,985
Fund Balance - Beginning of Year	1,304,387	117,311
FUND BALANCE - END OF YEAR	\$ 1,384,636	\$ 173,296

See accompanying Notes to Financial Statements.

Business Park	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 105,947	\$ 1,537,206
14,225	-	14,630
-	-	15,005
-	-	178,482
-	2,425	295,630
-	-	14,692
-	-	36,407
945	814	6,217
25,784	72	52,442
40,954	109,258	2,150,711
-	453	430,838
-	15	822,609
-	12,591	295,418
-	-	11,974
-	-	37,227
220	53,548	88,357
-	-	12,232
-	-	60,883
-	-	133,035
-	-	15,958
-	25,000	46,445
-	3,275	15,008
220	94,882	1,969,984
40,734	14,376	180,727
2,208	-	2,959
-	-	9,866
2,208	-	12,825
42,942	14,376	193,552
350,422	246,634	2,018,754
\$ 393,364	\$ 261,010	\$ 2,212,306

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**CITY OF PEQUOT LAKES, MINNESOTA
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 193,552

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

Governmental funds report capital outlay 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.

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Assets Adjustments	\$ 255,182	
Current Year Depreciation	(333,997)	(78,815)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	4,400
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Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The net proceeds for debt issuance are:	(9,866)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal Repayments		
Equipment Certificates	25,000	
Capital Leases	21,445	46,445

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Accrued Interest Payable	651	
Change in Compensated Absences	(7,359)	
Change in Other Postemployment Benefits	(16,785)	(23,493)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 132,223**

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013**

	Water Fund	Sewer Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and Pooled Investments	\$ 531,184	\$ 796,438	\$ 1,327,622
Special Assessments			
Noncurrent	676	675	1,351
Accounts Receivable (Net)	84,982	87,193	172,175
Total Current Assets	<u>616,842</u>	<u>884,306</u>	<u>1,501,148</u>
NONCURRENT ASSETS			
Capital Assets			
Land	21,198	156,969	178,167
Building (Net)	18,101	54,382	72,483
Machinery, Vehicles, Furniture and Equipment (Net)	1,321,009	151,110	1,472,119
Infrastructure (Net)	80,696	237,303	317,999
Total Noncurrent Assets	<u>1,441,004</u>	<u>599,764</u>	<u>2,040,768</u>
Total Assets	2,057,846	1,484,070	3,541,916
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	68,651	66,350	135,001
Salaries Payable	387	387	774
Due to Other Governments	2,061	4,091	6,152
Accrued Interest Payable	10,604	-	10,604
Compensated Absences Payable	393	393	786
General Obligation Bonds Payable - Due Within One Year	55,000	-	55,000
Total Current Liabilities	<u>137,096</u>	<u>71,221</u>	<u>208,317</u>
NONCURRENT LIABILITIES			
General Obligation Bonds Payable - Due in More than One Year	1,147,234	-	1,147,234
Compensated Absences Payable - Due in More than One Year	839	840	1,679
Other Postemployment Benefits Payable -			
Due in More than One Year	7,249	7,249	14,498
Total Noncurrent Liabilities	<u>1,155,322</u>	<u>8,089</u>	<u>1,163,411</u>
Total Liabilities	<u>1,292,418</u>	<u>79,310</u>	<u>1,371,728</u>
NET POSITION			
Net Investment in Capital Assets	238,770	599,764	838,534
Unrestricted	<u>526,658</u>	<u>804,996</u>	<u>1,331,654</u>
Total Net Position	<u>\$ 765,428</u>	<u>\$ 1,404,760</u>	<u>\$ 2,170,188</u>

See accompanying Notes to Financial Statements.

CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013

	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 247,156	\$ 253,551	\$ 500,707
Miscellaneous Operating	7,605	616	8,221
Total Operating Revenues	254,761	254,167	508,928
OPERATING EXPENSES			
Personal Services	18,387	18,393	36,780
Professional Services	30,572	41,343	71,915
Other Services and Charges	7,732	2,547	10,279
Supplies	11,922	5,607	17,529
Repairs and Maintenance	11,153	8,832	19,985
Utilities	12,590	14,034	26,624
Insurance	2,950	6,431	9,381
Dues and Subscriptions	3,714	1,459	5,173
Miscellaneous	3,369	-	3,369
Depreciation	65,463	24,119	89,582
Total Operating Expenses	167,852	122,765	290,617
OPERATING INCOME (LOSS)	86,909	131,402	218,311
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	3,448	48	3,496
Special Assessment Charges	21	15	36
Interest Income	1,449	2,255	3,704
Rent	-	5,000	5,000
Interest Expense	(25,786)	-	(25,786)
Total Nonoperating Revenues (Expenses)	(20,868)	7,318	(13,550)
CHANGE IN NET POSITION	66,041	138,720	204,761
Net Position - Beginning of Year	748,372	1,266,040	2,014,412
Change in Accounting Principle (See Note 7)	48,985	-	48,985
Net Position - Beginning of Year, As Restated	699,387	1,266,040	1,965,427
NET POSITION - END OF YEAR	\$ 765,428	\$ 1,404,760	\$ 2,170,188

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013**

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 253,573	\$ 257,615	\$ 511,188
Payments to Suppliers	(90,911)	(81,599)	(172,510)
Payments to Employees	(17,936)	(17,940)	(35,876)
Net Cash Provided (Used) by Operating Activities	144,726	158,076	302,802
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental	3,448	48	3,496
Rent Deposits	-	5,000	5,000
Net Cash Provided (Used) by Noncapital Financing Activities	3,448	5,048	8,496
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Long-Term Debt	(70,000)	-	(70,000)
Interest Paid on Long-Term Debt	(26,084)	-	(26,084)
Special Assessments	384	461	845
Purchases of Capital Assets	(49,634)	(49,917)	(99,551)
Net Cash Provided (Used) by Capital and Related Financing Activities	(145,334)	(49,456)	(194,790)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings Received	1,449	2,255	3,704
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	4,289	115,923	120,212
Cash and Cash Equivalents - Beginning of Year	526,895	680,515	1,207,410
CASH AND CASH EQUIVALENTS - END OF YEAR			
	<u>\$ 531,184</u>	<u>\$ 796,438</u>	<u>\$ 1,327,622</u>
Reconciliation of Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 86,909	\$ 131,402	\$ 218,311
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	65,463	24,119	89,582
(Increase) Decrease in Accounts Receivable	(1,188)	3,448	2,260
Increase (Decrease) in Accounts Payable	(4,889)	(1,356)	(6,245)
Increase (Decrease) in Salaries Payable	(133)	(133)	(266)
Increase (Decrease) in Due to Other Governments	(2,020)	10	(2,010)
Increase (Decrease) in Compensated Absences Payable	(195)	(194)	(389)
Increase (Decrease) in Other Postemployment Benefits Payable	779	780	1,559
Total Adjustments	57,817	26,674	84,491
Net Cash Provided (Used) by Operating Activities	<u>\$ 144,726</u>	<u>\$ 158,076</u>	<u>\$ 302,802</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Amortization of Current Year Bond Premium	\$ 124	\$ -	\$ 124

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pequot Lakes' (City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

The City of Pequot Lakes was formed and operates pursuant to applicable Minnesota laws. The City operates under a Mayor-Council form of government with a full-time City Clerk-Treasurer and provides the following services: public safety (police and fire), public works, culture-recreation, public improvements, planning and zoning, and general administrative services. The City also operates public water and sewer utilities.

As required by generally accepted accounting principles, these financial statements present City of Pequot Lakes (primary government) and its component units for which the City is financially accountable. There is financial accountability if the Primary Government appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body; or there is the potential for the organization to provide specific financial benefits or to impose specific financial burden on the Primary Government. Based on the criteria for determining component units, the City is not required to include 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 about the Primary Government. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. 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 to external parties for support.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

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

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

Fire Department Fund – The Fire Fund, a special revenue fund, is used to account for charges for services, grants, and contributions that are restricted and committed for the operation and maintenance of the fire service to the City and surrounding areas.

Business Park Fund – The Business Park Fund, a special revenue fund, is used to account for special assessments and other revenue committed to the fund.

The City reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the City's water wells' operations.

Sewer Fund – The Sewer Fund accounts for the activities of the City's sewer system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and compensated absences, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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 revenue of the City's enterprise funds are charges to customers for sales of goods and services. 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 of Resources, and Net Position or Equity

1. Cash and Investments (Including Cash Equivalents)

Cash balances are invested to the extent available in various securities as authorized by *Minnesota Statutes*. Investment earnings are recorded in the individual fund carrying the investment. Investments are stated at fair value.

Cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

For the purposes of the statement of cash flows of the proprietary fund types, the City considers all cash and investments under the classifications current assets to be cash and cash equivalents, except those held with fiscal agent. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

3. Accounts Receivable

The City has provided an allowance for uncollectable accounts receivable based on specific identification method. An allowance is estimated for these loans based on the historical experience of the City and knowledge of TIF District 1-13's operations. At December 31, 2013, the allowance for uncollectable accounts receivable in the TIF 1-13 fund is \$63,400.

4. Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with *Minnesota Statutes*. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year.

Special assessments receivable represents the past six years of uncollected special assessments. Property owners are allowed to prepay future installments without interest or prepayment penalties.

In the governmental fund financial statements, special assessment levies are recorded as a receivable and as deferred revenue at the time of the levy. Deferred revenue is recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

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. In the case of the initial capitalization of infrastructure, the City retroactively implemented the reporting of this item when GASB #34 was implemented. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 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, when applicable, is included as part of the capitalized value of the assets constructed.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

5. Capital Assets (Continued)

Capital assets of the Primary Government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-75
Infrastructure	15-75
Machinery, Furniture, and Equipment	3-15

6. Compensated Absences

Compensated absences include accumulated vacation, compensatory time, and sick leave. All full time employees of the City are entitled to annual vacation and sick leave with pay. Employees are allowed to accumulate 120 hours of vacation time to carry over to the following year. Employees earn vacation from 40 to 160 hours per year, depending on length of service. Sick leave of one day per month is earned with a 960 hour maximum. Upon retirement the employee is paid for all accumulated, unused vacation and a portion of the unused sick leave. Unused sick leave is paid out at termination for full-time employees as follows: 10% of total unused sick leave if five to nine years of service and 25% of unused sick leave if more than ten years of service with the City.

Compensated absences (including sick leave payments) are accrued when incurred in the government-wide financial statements. A liability and related expenditure for these amounts is reported in the governmental funds only if they have matured, for example, as a result of known employee resignations and retirements.

In the City's proprietary funds, amounts earned but unused for vacation leave and that portion of earned but unused sick leave estimated to be payable upon retirement are reflected under the accrual basis of accounting.

7. Other Postemployment Benefits

In the government-wide financial statements, and proprietary fund types in the fund financial statements, other postemployment benefit obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. These other postemployment benefit liabilities are an estimate based on an actuarial valuation.

8. 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. Bond premiums and discounts are amortized over the life of the bonds or loans payable using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

8. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported 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.

9. Deferred Inflows of Resources

The City's governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. The city does not have deferred inflows of resources to report in its proprietary fund financial statements in the current year.

10. Fund Balance/Net Position

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts that are inherently nonspendable or assets that will never be converted to cash or will be converted to cash soon enough to affect the current period. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board. Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. It is the City's policy that at the end of each fiscal, the City will set aside fund balance in the general fund up to 50% of the following year's general fund budgeted expenditures for cash flow purposes.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the City's policy to use committed first, then assigned, and finally unassigned amounts.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

10. Fund Balance/Net Position (Continued)

Net position represents the difference between assets and liabilities in the government-wide financial 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 capital assets. Net position is reported as restricted in government-wide financial statements when there are limitations on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

E. Revenues, Expenditures, and Expenses

1. Revenues

In the fund financial statements, property taxes are recognized to the extent they are collected and received in the current period or within 60 days after year-end. Portions paid by the State in the form of market value credit aid, and other state tax credits are included in intergovernmental revenues. Delinquent property taxes receivable which have not been recognized as revenue are equally offset in the financial statements by deferred revenues.

Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recorded as revenues when measurable and available.

Special assessments principal and interest earnings are recorded as revenues in the same manner as property taxes.

Property Tax Collection Calendar

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. Crow Wing County is the collecting agency for the levy and then remits the collection to the City. All taxes not collected as of December 31 are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain payments paid directly to the City.

The County Auditor provides a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

Property owners are required to pay one-half of their real estate taxes by May 15 and the balances by October 15.

Within 30 days after the May settlement, the County Treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City Treasurer. The County Treasurer must pay the balance to the City Treasurer within 60 days after the settlement, provided that after 45 days interest begins to accrue.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Property Tax Collection Calendar (Continued)

Current year property tax revenues represent the tax levy certified to the County Auditor in December of 2012 which was collected during the year ended December 31, 2013. Any adjustments or abatements to either the current, or any prior year, levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year end are classified as delinquent and not considered measurable and available and are fully offset by deferred revenue in the governmental fund financial statements. Delinquent taxes receivable represent the past six years of uncollected tax years. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

Within ten business days after November 15, the County Treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

2. Expenditures

Expenditure recognition for governmental fund types includes only amounts represented by current liabilities. Since noncurrent liabilities do not affect net current assets, they are not recognized as governmental fund expenditures or liabilities. They are reported as liabilities on the statement of net position.

3. Expenses

Proprietary funds recognize expenses, including compensated absences, when they are incurred.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Expenditures in Excess of Appropriations

In the following fund, expenditures exceeded the appropriations during the year ended December 31, 2013:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 1,706,272	\$ 1,693,469	\$ 12,803

The above overages were considered by the City's management to be the result of necessary expenditures critical to operations and were approved by the Council.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Deficit Fund Balance

The TIF 1-13 Lonesome Cottage Special Revenue Fund has a deficit fund balance as of December 31, 2013. The amount of the deficit is \$59,846 and is due to timing of when the expenditures occurred for this project and when the revenues will be received in the future. This deficit will be corrected through normal government operations as taxes are collected in the future and transfers, as needed.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

The cash balances of substantially all funds are pooled by the City Clerk-Treasurer for the purpose of increasing earning through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, based on market prices. Investment earnings on cash and pooled investments are credited to the general fund. In addition other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

In accordance with applicable Minnesota State Statutes, the City maintains deposits at financial institutions authorized by the City Council. All such deposits are members of the Federal Reserve System. *Minnesota Statutes* require that all 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 corporate surety bonds.

Custodial Credit Risk – Deposits – In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's deposit policy does not provide additional restrictions beyond Minnesota State Statutes to the type of risk.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; issued of the U.S. government agency; general obligation of local government related "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* required securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository. As of December 31, 2013, no City deposits were subject to custodial credit risk.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Minnesota Statutes §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the City:

- a) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by *Minnesota Statutes* §118A.04, subd. 6;
- b) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- c) general obligations of the state of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- d) bankers' acceptances of United States banks;
- e) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- f) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk – Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy requires the City to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity. The policy also states the City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Investments are categorized to give an indication of the level of interest rate risk assumed at year-end. Fair market values and maturities as of December 31, 2013 are as follows:

Type	Total Fair Value	Less Than 1 Year	1 to 2 Years	3 to 5 Years	More than 5 Years
Money Market Funds	\$ 49,177	\$ 49,177	\$ -	\$ -	\$ -
Federal Farm Credit	35,718	35,718	-	-	-
Federal National Mortgage Association Notes	125,657	-	73,574	52,083	-
Federal Home Loan Mortgage Corporation Notes	51,706	-	-	51,706	-
Federal Home Loan Mortgage Corporation Med Term Notes	32,699	-	-	-	32,699
Municipal Bonds	696,709	-	49,942	350,165	296,602
Total	<u>\$ 991,665</u>	<u>\$ 84,895</u>	<u>\$ 123,516</u>	<u>\$ 453,954</u>	<u>\$ 329,301</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Deposits and Investments (Continued) Concentration of Credit Risk – The risk of loss attributed to the magnitude of the City’s investments in a single issuer. The City places no limit on the amount that may be invested in any one issuer.

<u>Type</u>	<u>Amount</u>	<u>Percentage</u>
Fed Home Ln Mtg Corp	\$ 51,706	5.21 %
Federal National Mortgage Association	125,657	12.67
Cook Cnty Il Sch Dist #130 BLU txbl-LTD Ser B	49,942	5.04
Fishers In Econ Dev Rev Txbl Fishers Station Proj	49,558	5.00
Grant County WA Public Utility District	49,587	5.00
Jacksonville FL SPL Revenue	50,466	5.09
Monroe County NW Indl Dev Corp	50,277	5.07
Ridgewood NJ Board of Education	49,849	5.03
Salt Lake City Utah Redevelopment Agency	51,026	5.15
University of California CA Revenues	49,550	5.00
University OK Revenues	49,816	5.02
West Mifflin PA	49,656	5.01

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two rating issued by nationally recognized statistical rating organizations. The City’s policy states the City Clerk-Treasurer is expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. To control market price risk, volatile investment instruments shall be avoided.

<u>Type</u>	<u>Quality Rating</u>	<u>Amount</u>
Money Market Funds	N/A	\$ 49,177
Municipal Bonds	AA1-AA3	696,709
Federal Farm Credit	AAA	35,718
Federal National Mortgage Association Notes	AAA	125,657
Federal Home Loan Mortgage Corporation Notes	AAA	51,706
Federal Home Loan Mortgage Corporation Med Term Notes	AAA	32,699
Total		<u>\$ 991,665</u>

At December 31, 2013, the City deposit and investment balances were as follows:

Cash and Investments - Governmental Funds	\$ 2,222,246
Petty Cash and Change Funds - Governmental Funds	942
Cash and Investments - Proprietary Funds	1,327,622
Total Cash & Cash Equivalents	<u>\$ 3,550,810</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the governmental activities of the City for the year ended December 31, 2013, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, not Being Depreciated				
Land and Right of Way	\$ 1,520,693	\$ 3,548	\$ -	\$ 1,524,241
Construction in Progress	-	20,146	-	20,146
Total Capital Assets not Being Depreciated	1,520,693	23,694	-	1,544,387
Capital Assets Being Depreciated				
Buildings	1,500,001	36,860	-	1,536,861
Machinery, Furniture, and Equipment	1,848,649	116,133	18,100	1,946,682
Infrastructure	5,254,405	78,495	-	5,332,900
Total Capital Assets Being Depreciated	8,603,055	231,488	18,100	8,816,443
Less: Accumulated Depreciation for				
Buildings	427,266	54,024	-	481,290
Machinery, Furniture, and Equipment	1,290,231	103,386	18,100	1,375,517
Infrastructure	1,843,900	176,587	-	2,020,487
Total Accumulated Depreciation	3,561,397	333,997	18,100	3,877,294
Total Capital Assets, Depreciated, Net	5,041,658	(102,509)	-	4,939,149
Governmental Activities Capital Assets, Net	\$ 6,562,351	\$ (78,815)	\$ -	\$ 6,483,536

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Capital Assets (Continued)

The following is a summary of the proprietary fund capital assets for the year ended December 31, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not Being Depreciated				
Land	\$ 178,167	\$ -	\$ -	\$ 178,167
Capital Assets Being Depreciated				
Buildings	1,088,469	36,860	-	1,125,329
Machinery and Vehicles	3,063,236	62,691	-	3,125,927
Infrastructure	393,117	-	-	393,117
Total Capital Assets Being Depreciated	4,544,822	99,551	-	4,644,373
Less: Accumulated Depreciation for:				
Buildings	1,049,598	3,250	-	1,052,848
Machinery and Vehicles	1,580,165	73,641	-	1,653,806
Infrastructure	62,427	12,691	-	75,118
Total Accumulated Depreciation	2,692,190	89,582	-	2,781,772
Total Capital Assets, Depreciated, Net	1,852,632	9,969	-	1,862,601
Business-Type Activities Capital Assets, Net	<u>\$ 2,030,799</u>	<u>\$ 9,969</u>	<u>\$ -</u>	<u>\$ 2,040,768</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the Primary Government as follows:

Governmental Activities		
General Government	\$	61,794
Public Safety		55,156
Highways and Streets, Including Depreciation of Infrastructure Assets		199,519
Culture and Recreation		17,528
Total Depreciation Expense - Governmental Activities	<u>\$</u>	<u>333,997</u>
Business-Type Activity		
Water Fund		65,463
Sewer Fund		24,119
Total Depreciation Expense - Business-Type Activities	<u>\$</u>	<u>89,582</u>

B. Interfund Receivables and Payables

Receivable Fund	Payable Fund	Amount
Business Park	TIF 1-13 Lonesome Cottage	<u>\$ 48,127</u>

The above payable relates to a negative pooled cash balance.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities and Deferred Inflows of Resources

1. Long-Term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both general government and proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Assets of the general fund and the enterprise funds, together with scheduled future ad valorem tax levies, tax increments and special assessments, are dedicated for the retirement of these bonds.

General Obligation Refunding Bonds

On August 9, 2012, the City issued \$1,270,000 in General Obligation Utility Refunding Bonds Series 2012A to currently refund \$1,428,198 on the General Obligation Bond, Series 2000A and 2000B. The refunding was undertaken to reduce future interest costs and resulting in savings of \$611,725 and an economic gain of \$283,198.

Equipment Certificates

The City issued \$115,000 of equipment certificates on May 12, 2010 to provide funds for the acquisition of four police cars. Repayment of the principal will be five annual installments, plus a fixed interest rate of 5%, commencing February 1, 2011.

Capital Lease Obligations

The City issued a capital lease for the City Hall building. Certain assets of the general fund, together with scheduled future ad valorem levies are dedicated for the retirement of this obligation.

The City entered into a 60-month lease with The Office Shop and Canon Financial Services for the purchase of a Canon Copier. Monthly installments including interest are \$233.21.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Components of Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issued Amount	Outstanding Balance December 31, 2013	Due Within One Year
Business-Type Activities						
Water Fund						
General Obligation Utility Refunding Bonds of 2012	2031	\$55,000 - \$85,000	0.6 - 3.1%	<u>\$ 1,270,000</u>	\$ 1,200,000	\$ 55,000
Plus: Unamortized Premium					2,234	-
Total Water Fund, Net					<u>\$ 1,202,234</u>	<u>\$ 55,000</u>
Governmental Activities						
General Obligation Bonds						
Equipment Certificates, Series 2010A	2015	\$13,000- \$27,000	5.0%	\$ 115,000	\$ 53,000	\$ 26,000
Capital Leases						
Canon Copier	2018	\$9,866	14.67%	9,866	8,804	1,610
City Hall Building	2024	\$34,583	4.25%	1,097,442	277,568	21,295
Total Governmental Activities Long-Term Debt				<u>1,222,308</u>	<u>339,372</u>	<u>48,905</u>
Total Long-Term Debt				<u>\$ 2,492,308</u>	<u>\$ 1,541,606</u>	<u>\$ 103,905</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Equipment Certificates	\$ 78,000	\$ -	\$ 25,000	\$ 53,000	\$ 26,000
Capital Leases	297,951	9,866	21,445	286,372	22,905
Compensated Absences	33,057	84,022	76,664	40,415	18,809
Other Postemployment Benefits	99,537	17,192	407	116,322	-
Governmental Activities Long-Term Debt	<u>\$ 508,545</u>	<u>\$ 111,080</u>	<u>\$ 123,516</u>	<u>\$ 496,109</u>	<u>\$ 67,714</u>
Business-Type Activities:					
General Obligation Refunding Bonds	\$ 1,270,000	\$ -	\$ 70,000	\$ 1,200,000	\$ 55,000
Bond Premium	2,357	-	123	2,234	-
Compensated Absences	2,854	2,465	2,854	2,465	786
Other Postemployment Benefits	12,939	1,597	38	14,498	-
Business-Type Activities Long-Term Debt	<u>\$ 1,288,150</u>	<u>\$ 4,062</u>	<u>\$ 73,015</u>	<u>\$ 1,219,197</u>	<u>\$ 55,786</u>

4. Refunding Debt Issued

During 2012, the City issued General Obligation Utility Refunding Bonds, Series 2012A in the amount of \$1,270,000 with interest rates from 0.6 percent to 3.1 percent, along with \$150,000 of City funds to provide for the current refunding of the General Obligation Bonds Series 2000A and 2000B on October 1, 2012.

As a result of this refunding, the City will decrease its debt service requirements \$611,725, resulting in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$283,198.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Minimum Debt Payments

The annual requirements to amortize general obligation debt outstanding are as follows:

Year Ending December 31,	Business-Type Activities		
	General Obligation		
	Principal	Interest	Total
2014	\$ 55,000	\$ 25,285	\$ 80,285
2015	55,000	24,955	79,955
2016	60,000	24,520	84,520
2017	60,000	23,980	83,980
2018	60,000	23,320	83,320
2019-2023	310,000	102,420	412,420
2024-2028	355,000	64,863	419,863
2029-2033	245,000	11,548	256,548
Total	<u>\$1,200,000</u>	<u>\$ 300,890</u>	<u>\$ 1,500,890</u>

Year Ending December 31,	Governmental Activities		
	Capital Leases		
	Principal	Interest	Total
2014	\$ 22,905	\$ 11,901	\$ 34,806
2015	24,025	10,781	34,806
2016	25,220	9,586	34,806
2017	26,498	8,308	34,806
2018	25,665	7,044	32,709
2019-2023	141,037	19,012	160,049
2024	21,023	317	21,340
Total	<u>\$ 286,372</u>	<u>\$ 66,948</u>	<u>\$ 353,320</u>

Year Ending December 31,	Governmental Activities		
	Equipment Certificates		
	Principal	Interest	Total
2014	\$ 26,000	\$ 2,000	\$ 28,000
2015	27,000	675	27,675
Total	<u>\$ 53,000</u>	<u>\$ 2,675</u>	<u>\$ 55,675</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Minimum Debt Payments (Continued)

At year-end, included in capital assets related to these capital leases are assets recorded at \$1,056,200 for the City Hall building. The Canon copier asset is for \$9,866. There was accumulated depreciation of \$358,353 on the City Hall building and \$705 on the copier for 2013.

6. Operating Leases

The City leases a copier and a postage machine under operating leases. Total costs for these leases were \$3,045 for the year ended December 31, 2013. The Ricoh copier lease was ended in March of 2013. The future minimum lease obligations as of December 31, 2013, were as follows:

<u>Year Ended</u>	<u>Amount</u>
2014	\$ 1,923
2015	1,602
Total	<u>\$ 3,525</u>

NOTE 4 RISK MANAGEMENT

The City is exposed to various risks of loss related to: torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as common risk management and insurance program for Minnesota cities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining. The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements.

The City also carries commercial insurance for certain other risks of loss, including employee health insurance. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 PENSION PLANS

A. Public Employees Retirement Association

Plan Description

All full-time and certain part-time employees of the City of Pequot Lakes are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are a cost-sharing, multiple-employer retirement plans. The plan is 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 three 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 a 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 ten 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 ten 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 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 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.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 PENSION PLANS (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

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 GERS and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members are required to contribute 9.6% of their annual covered salary in 2013. The City of Pequot Lakes is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan GERS members and 14.4% for PEPFF members. The City's contributions to the General Employees Retirement Fund and the Public Employees Police and Fire Fund for the years ending December 31, 2013, 2012, and 2011 were:

	General Employees Retirement Fund	Public Employees Police and Fire Fund
2013	\$ 23,009	\$ 42,714
2012	21,473	44,149
2011	22,625	39,359

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 PENSION PLANS (CONTINUED)

B. Defined Contribution Plan

Three elected officials of the City are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

The employer's contribution amounts for the years ending December 31, 2013, 2012, and 2011 were \$411, \$449, and \$474, respectively, equal to the contractually required contributions for each year as set by state statute.

C. Pequot Lakes Fire Department Relief Association

Plan Description

The Public Employee Retirement System (PERS) Plan is a single-employer defined benefit pension plan administered by the Pequot Lakes Fire Department Relief Association. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Benefits are established by state statute. The Pequot Lakes Fire Department issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the City's Fire Department.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 PENSION PLANS (CONTINUED)

C. Pequot Lakes Fire Department Relief Association (Continued)

Funding Policy

Minnesota Statutes specify minimum contributions that may be required from the City on an annual basis. These minimum contributions are determined based on the amount required to meet the normal cost plus amortizing any prior year's service cost over a ten year period. A contribution was not required from the City for the year ended December 31, 2013. The Pequot Lakes Fire Department Relief Association also receives funding from the State of Minnesota as a two percent fire premium tax. The City receives the contributions and is required by statute to pass this through as payment to the Fire Relief Association. Investment earnings also add to the resources available for benefits.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to PERS for the current year were as follows:

Annual Required Contribution	\$	-
Interest on Net Pension Obligation		-
Adjustment to Annual Required Contribution		48,080
Annual Pension Cost		<u>48,080</u>
Less Contribution Made		<u>(48,080)</u>
Increase (Decrease) in Net Pension Obligation		-
Net Pension Obligation - Beginning of Year		-
Net Pension Obligation - End of Year	<u>\$</u>	<u>-</u>

The annual required contribution for the current year was determined as part of December 31, 2012, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return and (b) age and service retirement was assumed to occur at age 50. Pension benefit obligations on an actuarial basis are not calculated for individual volunteer fire relief associations since state statutes permit alternate calculation of required reserves based on overall actuarial assumptions.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 PENSION PLANS (CONTINUED)

C. Pequot Lakes Fire Department Relief Association (Continued)

The City's net pension obligation for the Fire Relief Association (Association) for the years ended December 31, 2013, 2012, and 2011 are as follows:

December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	\$ 48,080	100.0 %	N/A
2012	35,012	100.0	N/A
2011	35,500	100.0	N/A

Contributions Required and Made

The City makes contributions to the Association annually in an amount equal to the fire aid received from the State of Minnesota as required by state statutes. The City is required to make additional contributions to the Association in the following year if the following years anticipated administrative expenses plus the anticipated increase in the required reserves plus amortization of the original unfunded accrued liability exceeds the anticipated revenues. The City was not required to make a contribution in excess of fire aid for 2013, 2012, or 2011.

Funding Progress

As of December 31, 2012 (the most recent available information), the plan was overfunded by \$156,831. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2012 (the most recent information available) and for the year then ended, the Association held no securities issued by the City or other related-parties.

D. OPEB Disclosure

The City provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The City provides benefits for retirees as required by *Minnesota Statutes* §471.61 subdivision 2b. Active employees who retire from the City when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay varying percentages of the total premium cost. As of January 1, 2012, no retirees were receiving health benefits from the City's health plan.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 PENSION PLANS (CONTINUED)

D. OPEB Disclosure (Continued)

1. Annual OPEB Cost and Net OPEB Obligation

The City's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of fund that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for 2013, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution	\$ 20,673
Interest on Net OPEB Obligation	5,054
Adjustment to ARC	<u>(6,938)</u>
Annual OPEB Cost	18,789
Contributions During the Year	<u>(445)</u>
Increase in Net OPEB Obligation	18,344
Net OPEB - Beginning of Year	<u>112,476</u>
Net OPEB - End of Year	<u><u>\$ 130,820</u></u>
Governmental Activities	\$ 116,322
Business-Type Activities	<u>14,498</u>
Total OPEB Payable	<u><u>\$ 130,820</u></u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 PENSION PLANS (CONTINUED)

D. OPEB Disclosure (Continued)

1. Annual OPEB Cost and Net OPEB Obligation (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for December 31, 2013 and 2012 and 2011 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2013	\$ 18,789	\$ 445	2.37 %	\$ 130,820
December 31, 2012	\$ 19,174	\$ 157	0.82 %	\$ 112,476
December 31, 2011	\$ 30,465	\$ 457	1.48 %	\$ 93,302

2. Funding Status and Funding Progress

The City currently has no assets that have been deposited into an irrevocable trust for future health benefits. Therefore, the actuarial value of assets is zero. No separate stand-alone financial report is issued for this plan.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	\$ -	\$ 105,338	\$ 105,338	-	\$ 580,558	18.1 %

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

3. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 PENSION PLANS (CONTINUED)

D. OPEB Disclosure (Continued)

3. Actuarial Methods and Assumptions (Continued)

In the January 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of the City using an underlying long-term inflation assumption of 2.50%. The annual healthcare cost trend rate is 8.00% initially, reduced incrementally to an ultimate rate of 5.00% after six years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a closed 30-year period.

NOTE 6 RELATED-ORGANIZATION

The Pequot Lakes Fire Relief Association (Association) is excluded from the financial reporting entity because the City's financial accountability does not extend beyond making appointments. The purpose of the Association is to provide lump-sum retirement benefits for City firefighters. The City has no significant influence over the management, budget, or policies of the association. Audited financial statements are available from the Association.

NOTE 7 CHANGE IN ACCOUNTING PRINCIPLE

The City has adopted GASB Statement No. 65, Items Previously Recognized as Assets and Liabilities. GASB No. 65 impacted financial reporting by establishing accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. Beginning net position was restated as debt issuance costs, except any portion related to prepaid insurance costs, are now recognized as an expense in the period incurred. Debt issuance costs of \$48,985 were previously reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF PEQUOT LAKES, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,433,949	\$ 1,433,949	\$ 1,431,259	\$ (2,690)
Special Assessments	200	200	405	205
Licenses and Permits	13,250	13,250	15,005	1,755
Intergovernmental	84,300	84,300	129,402	45,102
Charges for Services	116,020	116,020	128,365	12,345
Fines and Forfeits	14,250	14,250	14,692	442
Gifts and Contributions	16,850	16,850	35,807	18,957
Investment Earnings	8,000	8,000	4,013	(3,987)
Miscellaneous	3,500	3,500	16,956	13,456
Total Revenues	1,690,319	1,690,319	1,775,904	85,585
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Council	27,670	27,670	27,831	(161)
Clerk	193,640	193,640	200,553	(6,913)
Planning and Zoning	87,030	87,030	82,749	4,281
Buildings and Plant	45,227	45,227	46,585	(1,358)
Other General Government	81,150	81,150	72,667	8,483
Total General Government	434,717	434,717	430,385	4,332
PUBLIC SAFETY				
Police	552,620	552,620	584,686	(32,066)
Fire	72,400	72,400	68,819	3,581
Civil Defense	680	680	1,177	(497)
Total Public Safety	625,700	625,700	654,682	(28,982)
HIGHWAYS AND STREETS				
Public Works	244,190	244,190	266,686	(22,496)
Street Lighting	15,650	15,650	13,963	1,687
Traffic Signs and Signals	7,050	7,050	2,178	4,872
Total Highways and Streets	266,890	266,890	282,827	(15,937)
SANITATION				
Recycling	16,000	16,000	11,974	4,026
CULTURE AND RECREATION				
Parks	19,380	19,380	25,918	(6,538)
Regional Library	12,100	12,100	11,309	791
Total Culture and Recreation	31,480	31,480	37,227	(5,747)

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PEQUOT LAKES, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (CONTINUED)				
CURRENT (CONTINUED)				
ECONOMIC DEVELOPMENT				
Housing and Redevelopment Authority	\$ 40,332	\$ 40,332	\$ 34,589	\$ 5,743
CAPITAL OUTLAY				
General Government	10,900	10,900	12,232	(1,332)
Public Safety	15,000	15,000	60,185	(45,185)
Highways and Streets	219,000	219,000	133,035	85,965
Culture and Recreation	1,000	1,000	15,958	(14,958)
Total Capital Outlay	245,900	245,900	221,410	24,490
DEBT SERVICE				
Principal Retirement	20,170	20,170	21,445	(1,275)
Interest	12,280	12,280	11,733	547
Total Debt Service	32,450	32,450	33,178	(728)
Total Expenditures	1,693,469	1,693,469	1,706,272	(12,803)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,150)	(3,150)	69,632	72,782
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Assets	-	-	751	751
Proceeds from Capital Lease	-	-	9,866	9,866
TOTAL OTHER FINANCING SOURCES (USES)	-	-	10,617	10,617
NET CHANGE IN FUND BALANCE	\$ (3,150)	\$ (3,150)	80,249	\$ 83,399
Fund Balance - Beginning of Year			1,304,387	
FUND BALANCE - END OF YEAR			<u>\$ 1,384,636</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PEQUOT LAKES, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 49,080	\$ 49,080
Charges for Services	165,000	165,000	164,840	(160)
Gifts and Contributions	-	-	600	600
Investments Earnings	600	600	445	(155)
Miscellaneous	5,800	5,800	9,630	3,830
Total Revenues	<u>171,400</u>	<u>171,400</u>	<u>224,595</u>	<u>53,195</u>
EXPENDITURES				
CURRENT				
Public Safety				
Fire	126,980	126,980	167,912	(40,932)
CAPITAL OUTLAY				
Public Safety	20,000	20,000	698	19,302
DEBT SERVICE				
Principal Retirement	12,310	12,310	-	12,310
Interest	12,060	12,060	-	12,060
Total Debt Service	<u>24,370</u>	<u>24,370</u>	<u>-</u>	<u>24,370</u>
Total Expenditures	<u>171,350</u>	<u>171,350</u>	<u>168,610</u>	<u>2,740</u>
NET CHANGE IN FUND BALANCE	<u>\$ 50</u>	<u>\$ 50</u>	55,985	<u>\$ 55,935</u>
Fund Balance - Beginning of Year			<u>117,311</u>	
FUND BALANCE - END OF YEAR			<u>\$ 173,296</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PEQUOT LAKES, MINNESOTA
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2013**

I. BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to September 1, the City Clerk-Treasurer submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. The City Council adopts the proposed budget as amended and adjusted by the Council and certifies the proposed property tax levy to the County Auditor according to *Minnesota Statutes*.
- b. Public hearings are conducted in the Council's chambers.
- c. On or before December 28, the final budget is legally enacted by Council resolution and the final property tax levy certified to the County Auditor.
- d. Management is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are as originally adopted or amended by the City Council.
- e. The City has legally adopted budgets for the general fund, and the fire fund special revenue funds. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services, supplies, charges for services, and capital outlay) within each program. All amounts over budget have been approved by the City Council through the disbursement process.
- f. Budgets for the general, and certain special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the city council. All annual appropriations lapse at fiscal year-end.

II. EXPENDITURES IN EXCESS OF BUDGET

The General Fund expenditures exceeded appropriations by \$12,803, as shown below. However, total revenues exceeded budgeted amounts by \$85,585. The overages were considered by the City's management to be the result of necessary expenditures critical to operations and were approved by the council.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 1,706,272	\$ 1,693,469	\$ 12,803

**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
PEQUOT LAKES FIREMAN'S RELIEF ASSOCIATION
DECEMBER 31, 2013**

Fiscal Year Ending	Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Benefit Per Year of Service
12/31/2012	\$ 1,169,843	\$ 1,013,012	\$ (156,831)	115.5 %	\$ 3,100
12/31/2011	1,030,654	880,662	(149,992)	117.0	2,900
12/31/2010	949,834	817,762	(132,072)	116.2	2,900
12/31/2009	831,439	773,518	(57,921)	107.5	2,900
12/31/2008	734,308	725,088	(9,220)	101.3	2,900

Additional information relating to the pension plan is provided in Note 5C.

The December 31, 2013 report is not yet available.

**CITY OF PEQUOT LAKES, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS
 OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS
 DECEMBER 31, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	\$ -	\$ 105,338	\$ 105,338	- %	\$ 580,558	18.1 %
1/1/2009	-	118,698	118,698	-	616,864	19.2

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SUPPLEMENTARY INFORMATION

**CITY OF PEQUOT LAKES, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	Cemetery Perpetual Care	TIF 1-7 Babinsky	TIF 1-9 Lime Greenery
ASSETS			
Cash and Pooled Investments	\$ 28,666	\$ 26,463	\$ 3,862
Accounts Receivable	800	-	-
Taxes Receivable			
Current	-	-	-
Total Assets	\$ 29,466	\$ 26,463	\$ 3,862
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ -	\$ 9,688	\$ 3,054
Interfund Payable	-	-	-
Total Liabilities	-	9,688	3,054
FUND BALANCES			
Restricted for Economic Development	-	16,775	808
Restricted for Debt Repayment	-	-	-
Committed for Cemetery Perpetual Care	29,466	-	-
Committed for Highway 371 Project	-	-	-
Unassigned	-	-	-
Total Fund Balances (Deficits)	29,466	16,775	808
Total Liabilities and Fund Balances	\$ 29,466	\$ 26,463	\$ 3,862

TIF 1-13 Lonesome Cottage	Highway 371 Project	Total Nonmajor Special Revenue Funds	2010 Equipment Certificates	Total Nonmajor Governmental Funds
\$ -	\$ 244,683	\$ 303,674	\$ 32,491	\$ 336,165
-	-	800	-	800
-	448	448	592	1,040
<u>\$ -</u>	<u>\$ 245,131</u>	<u>\$ 304,922</u>	<u>\$ 33,083</u>	<u>\$ 338,005</u>

\$ 11,719	\$ 4,407	\$ 28,868	\$ -	\$ 28,868
48,127	-	48,127	-	48,127
<u>59,846</u>	<u>4,407</u>	<u>76,995</u>	<u>-</u>	<u>76,995</u>
-	-	17,583	-	17,583
-	-	-	33,083	33,083
-	-	29,466	-	29,466
-	240,724	240,724	-	240,724
(59,846)	-	(59,846)	-	(59,846)
<u>(59,846)</u>	<u>240,724</u>	<u>227,927</u>	<u>33,083</u>	<u>261,010</u>
<u>\$ -</u>	<u>\$ 245,131</u>	<u>\$ 304,922</u>	<u>\$ 33,083</u>	<u>\$ 338,005</u>

**CITY OF PEQUOT LAKES, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2013**

	Cemetery Perpetual Care	TIF 1-7 Babinsky	TIF 1-9 Lime Greenery
REVENUES			
Taxes	\$ -	\$ 21,556	\$ 6,787
Charges for Services	2,425	-	-
Interest on Investments	87	23	(2)
Miscellaneous	72	-	-
Total Revenues	2,584	21,579	6,785
EXPENDITURES			
CURRENT			
General Government	453	-	-
Public Safety	-	-	-
Highways and Streets	-	-	-
Economic Development	-	20,800	7,497
DEBT SERVICE			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	453	20,800	7,497
NET CHANGE IN FUND BALANCES	2,131	779	(712)
Fund Balance (Deficit) - Beginning of Year	27,335	15,996	1,520
FUND BALANCE (DEFICIT)- END OF YEAR	\$ 29,466	\$ 16,775	\$ 808

TIF 1-13 Lonesome Cottage	Highway 371 Project	Total Nonmajor Special Revenue Funds	2010 Equipment Certificates	Total Nonmajor Governmental Funds
\$ 26,043	\$ 22,400	\$ 76,786	\$ 29,161	\$ 105,947
-	-	2,425	-	2,425
-	717	825	(11)	814
-	-	72	-	72
26,043	23,117	80,108	29,150	109,258
-	-	453	-	453
-	-	-	15	15
-	12,591	12,591	-	12,591
25,251	-	53,548	-	53,548
-	-	-	25,000	25,000
-	-	-	3,275	3,275
25,251	12,591	66,592	28,290	94,882
792	10,526	13,516	860	14,376
(60,638)	230,198	214,411	32,223	246,634
<u>\$ (59,846)</u>	<u>\$ 240,724</u>	<u>\$ 227,927</u>	<u>\$ 33,083</u>	<u>\$ 261,010</u>

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REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and
Members of the City Council
City of Pequot Lakes
Pequot Lakes, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pequot Lakes (City), Minnesota as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2013-001 described in the accompanying Schedule of Findings and Recommendations to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiency 2013-002 as described in the accompanying Schedule of Findings and Recommendations to be a significant deficiency.

Honorable Mayor and
Members of the City Council
City of Pequot Lakes

Compliance and Other Matters

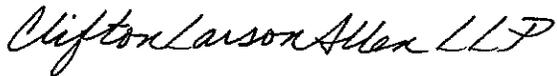
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Pequot Lakes' Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 25, 2014

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**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2013**

MATERIAL WEAKNESS (FINANCIAL REPORTING)

2013-001 FINANCIAL STATEMENT PRESENTATION

Criteria: The City of Pequot Lakes' (City) management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with Governmental Accounting Standards Board Statement No. 34.

Condition: As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to the financial statements.

Cause: The City has a limited number of personnel with financial reporting experience.

Effect: The design of the controls over the financial reporting process would affect the ability of the City to report its financial data consistently with the assertions of the management in the financial statements.

Recommendation: We recommend that the City be aware of the requirements for fair presentation of the financial statements in accordance with the Governmental Accounting Standards Board Statement No. 34. Should the City elect, based upon an analysis of costs and benefits, to establish the full oversight of the financial statement preparation of an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us; complete the disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

CITY'S RESPONSE:

The City understands that this is required communications for the preparation of the financial statements.

**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

SIGNIFICANT DEFICIENCY

2013-002 SEGREGATION OF DUTIES

Criteria: City management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the City. In addition, City management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition: Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control, is not in place. The City has reassigned a number of the previously identified responsibilities, however due to the number of employees available to assign responsibilities, some weaknesses still exist.

Cause: The City has a limited number of personnel.

Effect: The design of the internal controls over financial reporting could affect the ability of the City to record, process, summarize and report financial data consistently with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the City's inability to prevent/detect misappropriation of assets.

Recommendation: We recommend City management be aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by City staff.

CITY'S RESPONSE:

The City will review the accounting functions and segregate them if it is possible with limited staff.

**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

OTHER ITEM FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

None Noted.

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of Pequot Lakes
Pequot Lakes, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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 Pequot Lakes (City), Minnesota, as of December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated April 25, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Pequot Lakes, Minnesota 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 Pequot Lakes, Minnesota's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 25, 2014



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