

CITY OF PEQUOT LAKES, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2015

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INTRODUCTORY SECTION

**CITY OF PEQUOT LAKES, MINNESOTA
 PRINCIPAL CITY OFFICIALS
 DECEMBER 31, 2015**

Position	Name	Term Expires
<u>Elected Officials</u>		
Mayor	David Sjoblad	December 31, 2016
Council Member	Jerry Akerson	December 31, 2018
Council Member	Greg Karr	December 31, 2016
Council Member	Scott Pederson	December 31, 2016
Council Member	Randy Loukota	December 31, 2018
<u>Appointed</u>		
Administrator/Clerk	Nancy Malecha	
Attorney	Flaherty & Hood, P.A.	
Auditor	CliftonLarsonAllen LLP	

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pequot Lakes (City), Minnesota, as of and for the year ended December 31, 2015, 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, 2015, 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

For the year ended December 31, 2015, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the City reported a restatement for the change in accounting principle on their full accrual proprietary funds (see Note 8). Our auditors' opinion was not modified with respect 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, schedule of funding progress and the pension schedules as listed in the table of content, 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 13, 2016, 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 13, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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, 2015. 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, 2015 and the prior year, 2014 is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2015 include the following:

- ◆ City-wide net position increased 3 percent over the prior year and the restating of net position. The primary reason for the increase is due to an increase in tax and miscellaneous revenues.
- ◆ Overall, governmental fund-level revenues totaled \$2,356,151 and were \$124,105 less than expenditures before other financing sources. This excess of expenditures over revenues is due to capital outlay projects/purchases.
- ◆ The General Fund's fund balance increased \$10,922 (1 percent) from the prior year due mainly to a decrease in expenditures.
- ◆ The Fire Department Fund's fund balance decreased \$54,551 (43 percent) from the prior year due mainly to an increase in debt service expenditures.
- ◆ The Water Enterprise Fund's net position increased \$49,079 (6.2 percent) from the prior year due to an increase in charges for services. The Sewer Enterprise Fund's net position increased \$160,117 (11 percent) from the prior year due to an increase in charges for services.

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:

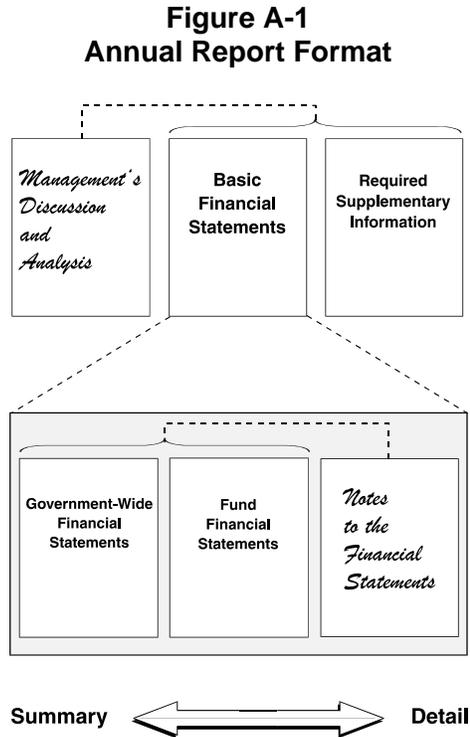
- ◆ The first two statements are City-wide financial statements which provide both short-term and long-term information about the City's overall financial status.
- ◆ The remaining statements are fund financial statements which focus on individual parts of the City, reporting the City's operations in 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, 2015**

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.



**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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, deferred inflows, deferred outflows 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, 2015**

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, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's total net position was \$10,743,126 on December 31, 2015 (see Table A-1).

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 2,348,743	\$ 2,476,104	\$ 1,748,758	\$ 1,592,814	\$ 4,097,501	\$ 4,068,918
Capital and Noncurrent Assets	7,555,580	7,087,481	2,007,455	2,000,025	9,563,035	9,087,506
Total Assets	9,904,323	9,563,585	3,756,213	3,592,839	13,660,536	13,156,424
Deferred Outflows of Resources	185,923	-	3,466	-	189,389	-
Current Liabilities	218,719	269,771	178,330	168,379	397,049	438,150
Long-Term Liabilities	1,502,574	881,257	1,083,691	1,109,566	2,586,265	1,990,823
Total Liabilities	1,721,293	1,151,028	1,262,021	1,277,945	2,983,314	2,428,973
Deferred Inflows of Resources	119,197	-	4,288	-	123,485	-
Net Position						
Net Investment in Capital Assets	6,441,610	6,254,015	912,551	852,915	7,354,161	7,106,930
Restricted	244,159	223,605	-	-	244,159	223,605
Unrestricted	1,563,987	1,934,937	1,580,819	1,461,979	3,144,806	3,396,916
Total Net Position	<u>\$ 8,249,756</u>	<u>\$ 8,412,557</u>	<u>\$ 2,493,370</u>	<u>\$ 2,314,894</u>	<u>\$ 10,743,126</u>	<u>\$ 10,727,451</u>

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$2,930,021 the year ended December 31, 2015. Property taxes and intergovernmental revenues accounted for 66 percent 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
	2015	2014		2015	2014		2015	2014	
REVENUES									
Program Revenues									
Charges for Services	\$ 334,559	\$ 327,105	- %	\$ 544,862	\$ 475,451	14.6 %	\$ 879,421	\$ 802,556	9.6 %
Operating Grants and Contributions	195,085	241,298	(19.2)	-	-	-	195,085	241,298	(19.2)
Capital Grants and Contributions	58,592	11,911	391.9	-	-	-	58,592	11,911	391.9
General Revenues									
Property Taxes	1,617,774	1,525,344	6.1	-	-	-	1,617,774	1,525,344	6.1
Unrestricted State Aid	57,923	79,636	(27.3)	-	-	-	57,923	79,636	(27.3)
Investment Earnings	20,099	32,914	(38.9)	13,768	21,813	(36.9)	33,867	54,727	(38.1)
Other	87,359	58,063	50.5	-	5,000	(100.0)	87,359	63,063	38.5
Total Revenues	2,371,391	2,276,271	4.2	558,630	502,264	11.2	2,930,021	2,778,535	5.5
EXPENSES									
General Government	554,031	546,543	1.4	-	-	-	554,031	546,543	1.4
Public Safety	949,877	954,354	(0.5)	-	-	-	949,877	954,354	(0.5)
Highways and Streets	549,962	517,548	6.3	-	-	-	549,962	517,548	6.3
Sanitation	8,971	14,276	(37.2)	-	-	-	8,971	14,276	(37.2)
Water	-	-	-	224,542	216,501	3.7	224,542	216,501	3.7
Sewer	-	-	-	124,832	141,057	(11.5)	124,832	141,057	(11.5)
Culture and Recreation	49,984	79,609	(37.2)	-	-	-	49,984	79,609	(37.2)
Economic Development	113,804	93,743	21.4	-	-	-	113,804	93,743	21.4
Interest	23,814	25,458	(6.5)	-	-	-	23,814	25,458	(6.5)
Total Expenses	2,250,443	2,231,531	0.8	349,374	357,558	(2.3)	2,599,817	2,589,089	0.4
CHANGE IN NET POSITION	120,948	44,740	170.3	209,256	144,706	44.6	330,204	189,446	74.3
Net Position - Beginning of Year	8,412,557	8,367,817		2,314,894	2,170,188		10,727,451	10,538,005	
Change in Accounting Principle	(283,749)	-		(30,780)	-		(314,529)	-	
Net Position - Beginning of Year, As Restated	8,128,808	8,367,817	(2.9)	2,284,114	2,170,188	5.2	10,412,922	10,538,005	(1.2)
NET POSITION - END OF YEAR	<u>\$ 8,249,756</u>	<u>\$ 8,412,557</u>		<u>\$ 2,493,370</u>	<u>\$ 2,314,894</u>		<u>\$ 10,743,126</u>	<u>\$ 10,727,451</u>	

Total revenues surpassed expenses, increasing net position \$330,204 over last year.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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 \$2,250,443.

- ◆ Some of the cost was paid by the users of the City's programs \$334,559.
- ◆ The federal and state governments subsidized certain programs with grants and contributions \$253,677.
- ◆ The remainder of the City's governmental activities costs of \$1,662,207, 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 2015

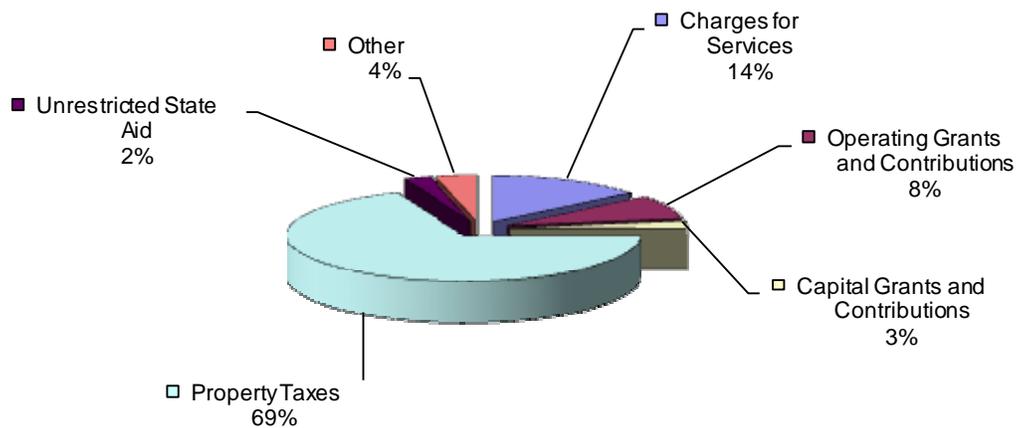
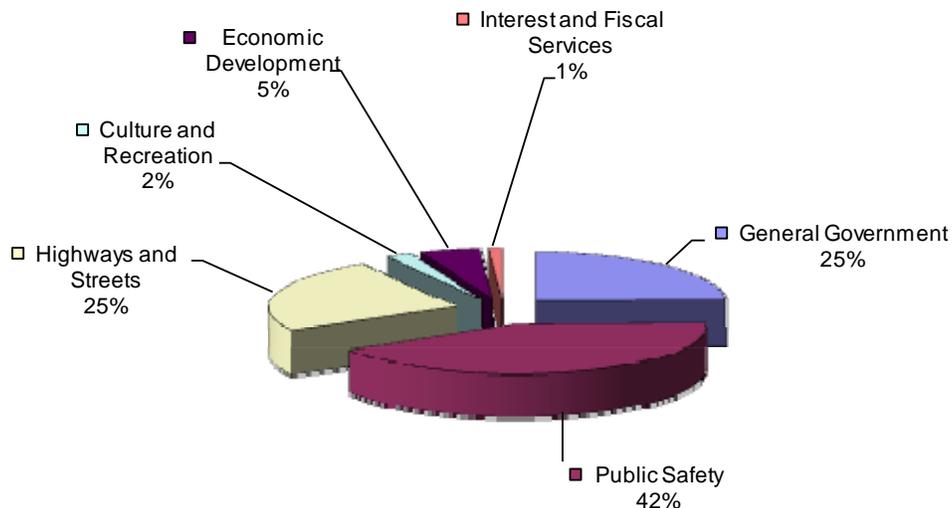


Figure A-4 City's Expenses for Fiscal 2015



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**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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
	2015	2014		2015	2014	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 554,031	\$ 546,543	1.4 %	\$ 519,375	\$ 512,821	1.3 %
Public Safety	949,877	954,354	(0.5)	543,994	583,054	(6.7)
Highways and Streets	549,962	517,548	6.3	491,370	519,861	(5.5)
Sanitation	8,971	14,276	(37.2)	(1,628)	13,464	112.1
Culture and Recreation	49,984	79,609	(37.2)	(28,522)	(82,960)	65.6
Economic Development	113,804	104,538	8.9	113,804	79,519	43.1
Interest	23,814	14,357	65.9	23,814	25,458	(6.5)
Total	<u>\$ 2,250,443</u>	<u>\$ 2,231,225</u>	0.9	<u>\$ 1,662,207</u>	<u>\$ 1,651,217</u>	0.7

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 \$2,070,410.

Revenues for the City's governmental funds were \$2,356,151, while total expenditures were \$2,480,256.

The General Fund's fund balance increased \$10,922 from the prior year. This is due primarily to an increase in tax and intergovernmental revenues with a slight decrease in expenditures.

The Fire Fund's fund balance decreased \$54,551 from the prior year, due primarily to an increase in debt service expenditures.

The Business Park Fund's fund balance increased \$3,847 from the prior year due to minimal business park expenditures.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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

The Water Enterprise Fund's net position increased \$49,079 from the prior year. This is due to an increase in charges for services.

The Sewer Enterprise Fund's net position increased \$160,177. This is due to an increase in charges for services.

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
	2015	2014	(Decrease)	
Taxes and Specials	\$ 1,494,805	\$ 1,434,486	\$ 60,319	4.2 %
Intergovernmental	167,240	130,216	37,024	28.4
Charges for Services	121,332	120,987	345	0.3
Interest	12,655	19,832	(7,177)	(36.2)
Miscellaneous	171,530	218,201	(46,671)	(21.4)
Total General Fund Revenue	<u>\$ 1,967,562</u>	<u>\$ 1,923,722</u>	<u>\$ 43,840</u>	2.3

Total General Fund revenue increased by \$43,840, or (2.3 percent), from the previous year. This is due primarily to increased taxes.

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
	2015	2014	(Decrease)	
General Government	\$ 477,204	\$ 478,720	\$ (1,516)	(0.3)%
Public Safety	802,297	679,503	122,794	18.1
Highways and Streets	494,839	565,977	(71,138)	(12.6)
Sanitation	8,971	14,276	(5,305)	(37.2)
Culture and Recreation	58,097	149,008	(90,911)	(61.0)
Economic Development	45,805	43,492	2,313	5.3
Debt Service	32,010	33,620	(1,610)	(4.8)
Total Expenditures	<u>\$ 1,919,223</u>	<u>\$ 1,964,596</u>	<u>\$ (45,373)</u>	(2.3)

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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 \$198,254 more than expected due to an increase in gifts and contributions, intergovernmental revenues and taxes.
- ◆ The actual expenditures were \$90,760 over budgeted expenditures due to higher capital outlay expenditures than anticipated.

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 2015.

CAPITAL ASSETS

By the end of 2015, the City had invested approximately \$16,580,000 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 \$487,116 (including the enterprise funds).

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

	Governmental Activities		Percent Change	Business-Type Activities		Percent Change	Total		Percent Change
	2015	2014		2015	2014		2015	2014	
Land	\$ 1,504,339	\$ 1,504,339	- %	\$ 178,167	\$ 178,167	- %	\$ 1,682,506	\$ 1,682,506	- %
Construction-in-Progress	86,051	-	100.0	96,047	-	100.0	182,098	-	100.0
Infrastructure	5,778,773	5,637,721	2.5	427,071	427,071	-	6,205,844	6,064,792	2.3
Buildings	1,536,861	1,536,861	-	1,125,329	1,125,329	-	2,662,190	2,662,190	-
Machinery, Equipment, and Vehicles	2,694,578	2,564,226	5.1	3,153,838	3,145,889	0.3	5,848,416	5,710,115	2.4
Less: Accumulated Depreciation	(4,427,314)	(4,155,666)	6.5	(2,972,997)	(2,876,431)	3.4	(7,400,311)	(7,032,097)	5.2
Total	\$ 7,173,288	\$ 7,087,481	1.2	\$ 2,007,455	\$ 2,000,025	0.4	\$ 9,180,743	\$ 9,087,506	1.0

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

LONG-TERM LIABILITIES

At year-end, the City had \$1,868,600 (net of related discounts and premiums) in long-term liabilities outstanding.

- ◆ The City's governmental activities total long-term debt increased \$100,938 due primarily to the repayment of equipment certificates, capital leases and loans payable. The City's business-type activities total long-term debt decreased \$52,298 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**

	2015	2014	Percentage Change
GOVERNMENTAL ACTIVITIES			
Equipment Certificates	\$ 156,000	\$ 220,000	(29.1)%
Capital Leases	243,819	263,467	(7.5)
Loans Payable	331,859	350,000	(5.2)
Compensated Absences Payable	39,528	38,677	2.2
Total	<u>\$ 771,206</u>	<u>\$ 872,144</u>	(11.6)
BUSINESS-TYPE ACTIVITIES			
General Obligation Bonds	\$ 1,091,986	\$ 1,147,110	(4.8)%
Capital Leases	2,918	-	100.0
Compensated Absences Payable	2,490	2,582	(3.6)
Total	<u>\$ 1,097,394</u>	<u>\$ 1,149,692</u>	(4.5)

FACTORS BEARING ON THE CITY'S FUTURE

Highway 371 Expansion

The Highway 371 Expansion project will in 2016 along with the construction of the City's row irrigation system. When these projects are complete in 2018, County Road 11 will become a major corridor entrance to the City and several miles of road turnbacks will be acquired by the City.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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 Nancy Malecha, City Administrator/Clerk 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, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 2,083,377	\$ 1,615,095	\$ 3,698,472
Petty Cash and Change Funds	942	-	942
Taxes Receivable			
Unapportioned	33,747	-	33,747
Delinquent	158,881	-	158,881
Special Assessments Receivable			
Delinquent	12,732	-	12,732
Noncurrent	-	1,813	1,813
Accounts Receivable, Net of Allowance	4,124	131,850	135,974
Accrued Interest Receivable	393	-	393
Due from Other Governments	2,564	-	2,564
Debt Reserve Restricted Cash	5,318	-	5,318
Loans Receivable	20,881	-	20,881
Land Held for Resale	25,784	-	25,784
Net Pension Asset	382,292	-	382,292
Capital Assets not Being Depreciated			
Land	1,504,339	178,167	1,682,506
Construction in Progress	86,051	96,047	182,098
Capital Assets Being Depreciated			
Building (Net)	946,207	64,667	1,010,874
Machinery, Vehicles, Furniture and Equipment (Net)	1,251,956	1,343,700	2,595,656
Infrastructure (Net)	3,384,735	324,874	3,709,609
Total Assets	9,904,323	3,756,213	13,660,536
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	185,923	3,466	189,389
LIABILITIES			
Accounts Payable	80,456	105,763	186,219
Salaries Payable	22,822	1,004	23,826
Due to Other Governments	3,629	152	3,781
Accrued Interest Payable	11,117	10,329	21,446
Compensated Absences Payable - Due Within One Year	17,989	608	18,597
Loans Payable - Due Within One Year	18,776	-	18,776
General Obligation Refunding Bonds Payable - Due Within One Year	-	60,000	60,000
Equipment Certificates - Due Within One Year	38,000	-	38,000
Capital Leases Payable - Due Within One Year	25,930	474	26,404
Compensated Absences Payable - Due in More than One Year	21,539	1,882	23,421
Loans Payable - Due in More than One Year	313,083	-	313,083
General Obligation Refunding Bonds Payable - Due in More than One Year	-	1,031,986	1,031,986
Equipment Certificates - Due in More than One Year	118,000	-	118,000
Capital Leases Payable - Due in More than One Year	217,889	2,444	220,333
Net Pension Liability - Due in More than One Year	682,063	30,756	712,819
Other Postemployment Benefits Payable - Due in More than One Year	150,000	16,623	166,623
Total Liabilities	1,721,293	1,262,021	2,983,314
DEFERRED INFLOWS OF RESOURCES			
Pension Related	119,197	4,288	123,485
NET POSITION			
Net Investment in Capital Assets	6,441,610	912,551	7,354,161
Restricted for Library	85,657	-	85,657
Restricted for Forfeiture	1,467	-	1,467
Restricted for Park Dedication	28,669	-	28,669
Restricted by Donor - Splash Park	15,000	-	15,000
Restricted for Debt Service Reserves	5,318	-	5,318
Restricted for Loans Receivable	64,552	-	64,552
Restricted for Economic Development	1,283	-	1,283
Restricted for Debt Service	42,213	-	42,213
Unrestricted	1,563,987	1,580,819	3,144,806
Total Net Position	\$ 8,249,756	\$ 2,493,370	\$ 10,743,126

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 554,031	\$ 29,054	\$ 5,602	\$ -
Public Safety	949,877	283,647	122,236	-
Highways and Streets	549,962	-	-	58,592
Sanitation	8,971	599	10,000	-
Culture and Recreation	49,984	21,259	57,247	-
Economic Development	113,804	-	-	-
Interest	23,814	-	-	-
Total Governmental Activities	2,250,443	334,559	195,085	58,592
Business-Type Activities				
Water	224,542	268,609	-	-
Sewer	124,832	276,253	-	-
Total Business-Type Activities	349,374	544,862	-	-
Total Primary Government	\$ 2,599,817	\$ 879,421	\$ 195,085	\$ 58,592

General Revenues

Property Taxes

Grants and Contributions not Restricted for a Particular Purpose

Investment Earnings

Miscellaneous

Total General Revenues

CHANGE IN NET POSITION

Net Position - Beginning of Year

Change in Accounting Principle (See Note 8)

Net Position - Beginning of Year

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (519,375)	\$ -	\$ (519,375)
(543,994)	-	(543,994)
(491,370)	-	(491,370)
1,628	-	1,628
28,522	-	28,522
(113,804)	-	(113,804)
(23,814)	-	(23,814)
(1,662,207)	-	(1,662,207)
-	44,067	44,067
-	151,421	151,421
-	195,488	195,488
(1,662,207)	195,488	(1,466,719)
1,617,774	-	1,617,774
57,923	-	57,923
20,099	13,768	33,867
87,359	-	87,359
1,783,155	13,768	1,796,923
120,948	209,256	330,204
8,412,557	2,314,894	10,727,451
(283,749)	(30,780)	(314,529)
8,128,808	2,284,114	10,412,922
<u>\$ 8,249,756</u>	<u>\$ 2,493,370</u>	<u>\$ 10,743,126</u>

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FUND FINANCIAL STATEMENTS

**CITY OF PEQUOT LAKES, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	Major Funds	
	General	Fire Department
ASSETS		
Cash and Investments	\$ 1,383,912	\$ 69,974
Petty Cash and Change Funds	942	-
Taxes Receivable		
Current	32,746	-
Noncurrent	158,881	-
Special Assessments Receivable		
Delinquent	12,732	-
Accounts Receivable, Net of Allowance	3,874	250
Accrued Interest Receivable	393	-
Due from Other Governments	1,564	1,000
Due from Other Funds	-	-
Debt Reserve Restricted Cash	-	5,318
Land Held for Resale	-	-
Loans Receivable	-	-
Total Assets	<u>\$ 1,595,044</u>	<u>\$ 76,542</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 35,402	\$ 3,804
Due to Other Governments	3,629	-
Salaries Payable	22,822	-
Due to Other Funds	-	-
Total Liabilities	<u>61,853</u>	<u>3,804</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable for Special Assessments	12,545	-
Unavailable for Taxes	158,881	-
Total Deferred Inflows of Resources	<u>171,426</u>	<u>-</u>
FUND BALANCES (DEFICITS)		
Nonspendable	-	-
Restricted for Forfeiture	1,467	-
Restricted for Park Dedication	28,669	-
Restricted by Donor - Splash Park	15,000	-
Restricted for Debt Service Reserves	-	7,597
Restricted for Loans Receivable	-	-
Restricted for Other Governmental Funds	-	-
Restricted for Library	85,657	-
Committed for Library	100,066	-
Committed for Capital Outlay	148,590	12,000
Committed for Fire Protection Services	-	53,141
Committed for Business Park	-	-
Committed for Other Governmental Funds	-	-
Committed for Highway 371 Project	-	-
Unassigned	982,316	-
Total Fund Balances (Deficits)	<u>1,361,765</u>	<u>72,738</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,595,044</u>	<u>\$ 76,542</u>

See accompanying Notes to Financial Statements.

Business Park	Highway 371 Project	Other Governmental Funds	Total Governmental Funds
\$ 327,713	\$ 167,472	\$ 134,306	\$ 2,083,377
-	-	-	942
-	-	1,001	33,747
-	-	-	158,881
-	-	-	12,732
-	-	-	4,124
-	-	-	393
-	-	-	2,564
43,671	-	-	43,671
-	-	-	5,318
25,784	-	-	25,784
20,881	-	-	20,881
<u>\$ 418,049</u>	<u>\$ 167,472</u>	<u>\$ 135,307</u>	<u>\$ 2,392,414</u>

\$ -	\$ 528	\$ 40,722	\$ 80,456
-	-	-	3,629
-	-	-	22,822
-	-	43,671	43,671
-	528	84,393	150,578

-	-	-	12,545
-	-	-	158,881
-	-	-	171,426

25,784	-	-	25,784
-	-	-	1,467
-	-	-	28,669
-	-	-	15,000
-	-	-	7,597
64,552	-	-	64,552
-	-	45,121	45,121
-	-	-	85,657
-	-	-	100,066
-	-	-	160,590
-	-	-	53,141
327,713	-	-	327,713
-	-	61,026	61,026
-	166,944	-	166,944
-	-	(55,233)	927,083
<u>418,049</u>	<u>166,944</u>	<u>50,914</u>	<u>2,070,410</u>

<u>\$ 418,049</u>	<u>\$ 167,472</u>	<u>\$ 135,307</u>	<u>\$ 2,392,414</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, 2015**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,070,410

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. 7,173,288

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflow of resources in the governmental funds. 171,426

The City's Net Pension Asset, Net Pension Liability, and related deferred inflows and outflows of resources are recorded only on the statement of net position. Balances at year-end are:

Net Pension Asset	\$ 382,292	
Net Pension Liability	(682,063)	
Deferred Inflows of Resources - Pension Related	(119,197)	
Deferred Outflows of Resources - Pension Related	<u>185,923</u>	(233,045)

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	(156,000)	
Loans Payable	(331,859)	
Capital Leases	(243,819)	
Compensated Absences	(39,528)	
Other Postemployment Benefits	(150,000)	
Accrued Interest Payable	<u>(11,117)</u>	<u>(932,323)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 8,249,756

CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

	Major Funds	
	General Fund	Fire Department
REVENUES		
Taxes	\$ 1,493,987	\$ -
Special Assessments	818	-
Licenses and Permits	15,020	-
Intergovernmental	167,240	68,882
Charges for Services	121,332	177,852
Fines and Forfeits	12,161	-
Gifts and Contributions	57,247	7,200
Investment Earnings	12,655	857
Debt Reserve Revenues	-	3,039
Miscellaneous	87,102	246
Total Revenues	1,967,562	258,076
EXPENDITURES		
CURRENT		
General Government	463,119	-
Public Safety	689,218	202,054
Highways and Streets	295,118	-
Sanitation	8,971	-
Culture and Recreation	46,017	-
Economic Development	45,805	-
CAPITAL OUTLAY		
General Government	14,085	-
Public Safety	113,079	80,182
Highways and Streets	199,721	-
Culture and Recreation	12,080	-
DEBT SERVICE		
Principal	24,192	18,141
Interest	7,818	12,250
Total Expenditures	1,919,223	312,627
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	48,339	(54,551)
OTHER FINANCING SOURCES (USES)		
Transfers In	-	-
Transfers Out	(43,916)	-
Proceeds from Sale of Assets	1,955	-
Proceeds from Capital Lease	4,544	-
Total Other Financing Sources (Uses)	(37,417)	-
NET CHANGE IN FUND BALANCES	10,922	(54,551)
Fund Balance - Beginning of Year	1,350,843	127,289
FUND BALANCE - END OF YEAR	\$ 1,361,765	\$ 72,738

See accompanying Notes to Financial Statements.

Business Park	Highway 371 Project	Other Governmental Funds	Total Governmental Funds
\$ -	22,400	\$ 98,715	\$ 1,615,102
-	-	-	818
-	-	-	15,020
-	-	-	236,122
-	-	2,800	301,984
-	-	-	12,161
-	-	-	64,447
3,427	2,276	884	20,099
-	-	-	3,039
-	-	11	87,359
<u>3,427</u>	<u>24,676</u>	<u>102,410</u>	<u>2,356,151</u>
-	-	1,122	464,241
-	-	10	891,282
-	33,261	-	328,379
-	-	-	8,971
-	-	-	46,017
835	-	68,029	114,669
-	-	-	14,085
-	-	7,893	201,154
-	68,179	-	267,900
-	-	-	12,080
-	-	64,000	106,333
-	-	5,077	25,145
<u>835</u>	<u>101,440</u>	<u>146,131</u>	<u>2,480,256</u>
2,592	(76,764)	(43,721)	(124,105)
-	-	43,916	43,916
-	-	-	(43,916)
1,255	-	-	3,210
-	-	-	4,544
<u>1,255</u>	<u>-</u>	<u>43,916</u>	<u>7,754</u>
3,847	(76,764)	195	(116,351)
<u>414,202</u>	<u>243,708</u>	<u>50,719</u>	<u>2,186,761</u>
<u>\$ 418,049</u>	<u>\$ 166,944</u>	<u>\$ 50,914</u>	<u>\$ 2,070,410</u>

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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, 2015**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (116,351)

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	\$ 482,106	
Current Year Depreciation	<u>(390,550)</u>	91,556

In the statement of activities, only the gain or loss on the disposal of capital assets are reported whereas in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net cost of the disposed capital assets. (5,749)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 15,240

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: (4,544)

Pension expenditures on the governmental funds are measured by current employee contributions. Pension expenses on the statement of activities is measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources. 50,704

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	64,000	
Loans Payable	18,141	
Capital Leases	<u>24,192</u>	106,333

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	1,498	
Change in Compensated Absences	(851)	
Change in Other Postemployment Benefits	<u>(16,888)</u>	<u>(16,241)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 120,948

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	Water Fund	Sewer Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and Investments	\$ 625,838	\$ 989,257	\$ 1,615,095
Special Assessments			
Noncurrent	926	887	1,813
Accounts Receivable (Net)	48,631	83,219	131,850
Total Current Assets	<u>675,395</u>	<u>1,073,363</u>	<u>1,748,758</u>
NONCURRENT ASSETS			
Capital Assets			
Land	21,198	156,969	178,167
Building (Net)	16,785	47,882	64,667
Machinery, Vehicles, Furniture and Equipment (Net)	1,196,480	147,220	1,343,700
Infrastructure (Net)	84,702	240,172	324,874
Construction in Progress	-	96,047	96,047
Total Noncurrent Assets	<u>1,319,165</u>	<u>688,290</u>	<u>2,007,455</u>
Total Assets	1,994,560	1,761,653	3,756,213
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	1,733	1,733	3,466
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	36,741	69,022	105,763
Salaries Payable	502	502	1,004
Due to Other Governments	76	76	152
Accrued Interest Payable	10,329	-	10,329
Compensated Absences Payable	304	304	608
General Obligation Bonds Payable - Due Within One Year	60,000	-	60,000
Capital notes payable - due within one year	237	237	474
Total Current Liabilities	<u>108,189</u>	<u>70,141</u>	<u>178,330</u>
NONCURRENT LIABILITIES			
General Obligation Bonds Payable - Due in More than One Year	1,031,986	-	1,031,986
Capital leases payable - due in more than one year	1,222	1,222	2,444
Compensated Absences Payable - Due in More than One Year	941	941	1,882
Net Pension Liability - Due in More than One Year	15,378	15,378	30,756
Other Postemployment Benefits Payable - Due in More than One Year	8,312	8,311	16,623
Total Noncurrent Liabilities	<u>1,057,839</u>	<u>25,852</u>	<u>1,083,691</u>
Total Liabilities	<u>1,166,028</u>	<u>95,993</u>	<u>1,262,021</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	2,144	2,144	4,288
NET POSITION			
Net Investment in Capital Assets	225,720	686,831	912,551
Unrestricted	602,401	978,418	1,580,819
Total Net Position	<u>\$ 828,121</u>	<u>\$ 1,665,249</u>	<u>\$ 2,493,370</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, 2015

	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 260,328	\$ 275,390	\$ 535,718
Miscellaneous Operating	7,916	952	8,868
Total Operating Revenues	268,244	276,342	544,586
OPERATING EXPENSES			
Personal Services	23,021	23,019	46,040
Professional Services	42,652	38,308	80,960
Other Services and Charges	7,079	2,237	9,316
Supplies	25,574	4,163	29,737
Repairs and Maintenance	13,963	1,574	15,537
Utilities	13,442	14,866	28,308
Insurance	2,464	6,101	8,565
Dues and Subscriptions	3,255	5,947	9,202
Depreciation	67,949	28,617	96,566
Total Operating Expenses	199,399	124,832	324,231
OPERATING INCOME (LOSS)	68,845	151,510	220,355
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	32	32	64
Special Assessment Charges	333	(121)	212
Interest Income	5,012	8,756	13,768
Interest Expense	(25,143)	-	(25,143)
Total Nonoperating Revenues (Expenses)	(19,766)	8,667	(11,099)
CHANGE IN NET POSITION	49,079	160,177	209,256
Net Position - Beginning of Year	794,432	1,520,462	2,314,894
Change in Accounting Principle (See Note 8)	(15,390)	(15,390)	(30,780)
Net Position - Beginning of Year, As Restated	779,042	1,505,072	2,284,114
NET POSITION - END OF YEAR	\$ 828,121	\$ 1,665,249	\$ 2,493,370

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 233,040	\$ 275,551	\$ 508,591
Payments to Suppliers	(71,044)	(71,596)	(142,640)
Payments to Employees	(22,111)	(22,110)	(44,221)
Net Cash Provided (Used) by Operating Activities	139,885	181,845	321,730
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental	32	32	64
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions			-
Principal Paid on Long-Term Debt	(55,000)	-	(55,000)
Interest Paid on Long-Term Debt	(25,405)	-	(25,405)
Special Assessments	(135)	(46)	(181)
Purchases of Capital Assets	(56)	(101,022)	(101,078)
Net Cash Provided (Used) by Capital and Related Financing Activities	(80,596)	(101,068)	(181,664)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings Received	5,012	8,756	13,768
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	64,333	89,565	153,898
Cash and Cash Equivalents - Beginning of Year	561,505	899,692	1,461,197
CASH AND CASH EQUIVALENTS - END OF YEAR			
	<u>\$ 625,838</u>	<u>\$ 989,257</u>	<u>\$ 1,615,095</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 68,845	\$ 151,510	\$ 220,355
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	67,949	28,617	96,566
(Increase) Decrease in Accounts Receivable	(35,204)	(791)	(35,995)
(Increase) Decrease in Deferred Outflow of Resources	(3,184)	(3,184)	(6,368)
Increase (Decrease) in Accounts Payable	37,379	1,594	38,973
Increase (Decrease) in Salaries Payable	30	30	60
Increase (Decrease) in Due to Other Governments	6	6	12
Increase (Decrease) in Compensated Absences Payable	(46)	(46)	(92)
Increase (Decrease) in Other Postemployment Benefits Payable	527	526	1,053
Increase (Decrease) in Net Pension Liability	1,439	1,439	2,878
Increase (Decrease) in Deferred Inflows of Resources	2,144	2,144	4,288
Total Adjustments	71,040	30,335	101,375
Net Cash Provided (Used) by Operating Activities	<u>\$ 139,885</u>	<u>\$ 181,845</u>	<u>\$ 321,730</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Amortization of Current Year Bond Premium	\$ 124	\$ -	\$ 124
Purchase of Assets through Lease	1,459	1,459	2,918
Net Noncash Investing, Capital and Financing Activities	<u>\$ 1,583</u>	<u>\$ 1,459</u>	<u>\$ 3,042</u>

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, 2015**

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.

Highway 371 Project – The Highway 371 Project Fund, a capital projects fund, is used to account for capital improvements on highway 371 within the City.

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, 2015**

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. 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, 2015**

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, 2015, 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, 2015**

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:

Assets	Years
Buildings	25-75
Infrastructure	15-75
Machinery, Furniture, and Equipment	3-15

6. Deferred Outflows of Resources

The City reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position. The deferred outflow of resources reported in the financial statements consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

7. 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 percent of total unused sick leave if five to nine years of service and 25 percent 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.

8. 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.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. 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.

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.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the City's requirement to contribute to the Pequot Lakes Firefighters Relief Association Plan, information about the Plan's fiduciary net position and additions to/deductions from the Pequot Lakes Firefighters Relief Association Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. 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.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. 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 percent 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.

Net position represents the difference between assets, deferred inflows, deferred outflows 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.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015**

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 2014 which was collected during the year ended December 31, 2015. 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

A. Expenditures in Excess of Appropriations

In the following funds, expenditures exceeded the appropriations during the year ended December 31, 2015:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 1,919,223	\$ 1,828,463	\$ 90,760
Special Revenue Funds			
Fire Fund	312,627	193,680	118,947

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, 2015**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Deficit Fund Balance

The TIF 1-13 Lonesome Cottage Special Revenue Fund had a deficit fund balance as of December 31, 2015. The amount of the deficit is \$55,233, respectively and is due to timing of when the expenditures occurred in the funds and when the revenues will be received in the future. The deficits 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 Administrator/Clerk for the purpose of increasing earning through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, 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 percent 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, 2015, no City deposits were subject to custodial credit risk.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, 2015 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	\$ 137,318	\$ 137,318	\$ -	\$ -	\$ -
US Treasury Notes	366,095	-	42,795	169,713	153,587
Federal Home Loan Mortgage Corporation Notes	50,403	50,403	-	-	-
Federal Home Loan Mortgage Corporation Med Term Notes	72,471	-	-	72,471	-
Municipal Bonds	914,962	100,435	303,332	256,873	254,322
Total	<u>\$ 1,541,249</u>	<u>\$ 288,156</u>	<u>\$ 346,127</u>	<u>\$ 499,057</u>	<u>\$ 407,909</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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>
Wyoming SNTY PA	\$ 77,903	5.05 %

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 Administrator/Clerk 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>
Municipal Bonds	AA1-AA3	\$ 914,962
Federal Home Loan Mortgage Corporation Notes	AAA	50,403
Federal Home Loan Mortgage Corporation Med Term Notes	AAA	72,471
US Treasury Note	AAA	<u>366,095</u>
Total		<u>\$ 1,403,931</u>

At December 31, 2015, the City deposit and investment balances were as follows:

Cash and Investments - Governmental Funds	\$ 2,088,695
Petty Cash and Change Funds - Governmental Funds	942
Cash and Investments - Proprietary Funds	<u>1,615,095</u>
Total Cash & Cash Equivalents	<u>\$ 3,704,732</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, 2015, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, not Being Depreciated				
Land and Right of Way	\$ 1,504,339	\$ -	\$ -	\$ 1,504,339
Construction in Progress	-	86,051	-	86,051
Total Capital Assets not Being Depreciated	1,504,339	86,051	-	1,590,390
Capital Assets Being Depreciated				
Buildings	1,536,861	-	-	1,536,861
Machinery, Furniture, and Equipment	2,564,226	255,003	124,651	2,694,578
Infrastructure	5,637,721	141,052	-	5,778,773
Total Capital Assets Being Depreciated	9,738,808	396,055	124,651	10,010,212
Less: Accumulated Depreciation for				
Buildings	535,972	54,682	-	590,654
Machinery, Furniture, and Equipment	1,416,175	145,349	118,902	1,442,622
Infrastructure	2,203,519	190,519	-	2,394,038
Total Accumulated Depreciation	4,155,666	390,550	118,902	4,427,314
Total Capital Assets, Depreciated, Net	5,583,142	5,505	5,749	5,582,898
Governmental Activities Capital Assets, Net	\$ 7,087,481	\$ 91,556	\$ 5,749	\$ 7,173,288

CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, not Being				
Depreciated				
Land	\$ 178,167	\$ -	\$ -	\$ 178,167
Construction-in-Progress	-	96,047	-	96,047
Total Capital Assets not Being				
Depreciated	178,167	96,047	-	274,214
Capital Assets Being				
Depreciated				
Buildings	1,125,329	-	-	1,125,329
Machinery and Vehicles	3,145,889	7,949	-	3,153,838
Infrastructure	427,071	-	-	427,071
Total Capital Assets Being				
Depreciated	4,698,289	7,949	-	4,706,238
Less: Accumulated				
Depreciation for:				
Buildings	1,056,754	3,908	-	1,060,662
Machinery and Vehicles	1,731,303	78,835	-	1,810,138
Infrastructure	88,374	13,823	-	102,197
Total Accumulated Depreciation	2,876,431	96,566	-	2,972,997
Total Capital Assets, Depreciated, Net	1,821,858	(88,617)	-	1,733,241
Business-Type Activities				
Capital Assets, Net	\$ 2,000,025	\$ 7,430	\$ -	\$ 2,007,455

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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	\$	64,156
Public Safety		84,752
Highways and Streets, Including Depreciation of Infrastructure Assets		222,205
Culture and Recreation		19,437
Total Depreciation Expense - Governmental Activities	<u>\$</u>	<u>390,550</u>
Business-Type Activity		
Water Fund	\$	67,949
Sewer Fund		28,617
Total Depreciation Expense - Business-Type Activities	<u>\$</u>	<u>96,566</u>

B. Interfund Receivables and Payables

Receivable Fund	Payable Fund	Amount
Business Park	TIF 1-13 Lonesome Cottage	<u>\$ 43,671</u>

The above payable relates to a negative pooled cash balance.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Long-Term Debt

Loans Payable

The City borrowed \$350,000 of USDA Rural Development funds on March 26, 2014 to provide funds for the acquisition of a fire truck. Repayment of the principal will be fifteen annual installments, plus a fixed interest rate of 3.5 percent, commencing March 26, 2015.

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 percent, commencing February 1, 2011.

The City issued \$193,000 of equipment certificates on February 18, 2014 to provide funds for the acquisition of a plow truck. Repayment of the principal will be five annual installments, plus a fixed interest rate of 2.5 percent, commencing on February 1, 2015.

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.

The City entered into a 63 month lease with Hasler Financial for the use of a postage machine. Monthly installments including interest are \$154.99.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issued Amount	Outstanding Balance December 31, 2015	Due Within One Year
Business-Type Activities						
Water Fund						
General Obligation Utility Refunding Bonds of 2012	2031	\$55,000 - \$85,000	0.60 - 3.10%	\$ 1,270,000	\$ 1,090,000	\$ 60,000
Plus: Unamortized Premium				-	1,986	-
Capital Leases						
Water Portion of Postage Lease	2020	\$372	10.00%	1,515	1,459	237
Total Water Fund, Net				\$ 1,271,515	\$ 1,093,445	\$ 60,237
Sewer Fund						
Capital Leases						
Sewer Portion of Postage Lease	2020	\$372	10.00%	\$ 1,514	\$ 1,459	\$ 237
Total Business-Type Activities Long-Term Debt, Net				<u>\$ 1,273,029</u>	<u>\$ 1,094,904</u>	<u>\$ 60,474</u>
Governmental Activities						
General Obligation Bonds						
Equipment Certificates, Series 2010A	2015	\$13,000- \$27,000	5.00%	\$ 115,000	\$ -	\$ -
Equipment Certificates, Series 2014A	2019	\$37,000- \$40,000	2.50%	193,000	156,000	38,000
Total Governmental Activities General Obligation Bonds, Net				308,000	156,000	38,000
Loans						
USDA Community Facility Loan	2029	\$18,141- \$29,322	3.50%	350,000	331,859	18,776
Capital Leases						
Canon Copier	2018	\$2,796	14.67%	9,866	5,331	2,155
City Hall Building	2024	\$34,583	4.25%	1,097,442	234,111	23,065
Government Activities						
Portion Postage Lease	2020	\$1,116	10.00%	4,544	4,377	710
Total Capital Leases				<u>1,111,852</u>	<u>243,819</u>	<u>25,930</u>
Total Governmental Activities Long-Term Debt				<u>1,769,852</u>	<u>731,678</u>	<u>82,706</u>
Total Long-Term Debt				<u>\$ 3,042,881</u>	<u>\$ 1,826,582</u>	<u>\$ 143,180</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Equipment Certificates	\$ 220,000	\$ -	\$ 64,000	\$ 156,000	\$ 38,000
Capital Leases	263,467	4,544	24,192	243,819	25,930
Loans Payable	350,000	-	18,141	331,859	18,776
Compensated Absences	38,677	82,680	81,829	39,528	17,989
Governmental Activities Long-Term Debt	<u>\$ 872,144</u>	<u>\$ 87,224</u>	<u>\$ 188,162</u>	<u>\$ 771,206</u>	<u>\$ 100,695</u>
Business-Type Activities:					
General Obligation Refunding Bonds	\$ 1,145,000	\$ -	\$ 55,000	\$ 1,090,000	\$ 60,000
Bond Premium	2,110	-	124	1,986	-
Capital Lease	-	3,029	111	2,918	474
Compensated Absences	2,582	2,723	2,815	2,490	608
Business-Type Activities Long-Term Debt	<u>\$ 1,149,692</u>	<u>\$ 5,752</u>	<u>\$ 58,050</u>	<u>\$ 1,097,394</u>	<u>\$ 61,082</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, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (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
2016	\$ 60,000	\$ 24,520	\$ 84,520
2017	60,000	23,980	83,980
2018	60,000	23,320	83,320
2019	60,000	22,540	82,540
2020	60,000	21,640	81,640
2021-2025	325,000	90,080	415,080
2026-2030	380,000	43,253	423,253
2031	85,000	1,317	86,317
Total	<u>\$1,090,000</u>	<u>\$ 250,650</u>	<u>\$ 1,340,650</u>

Year Ending December 31,	Governmental Activities					
	Capital Leases			Loans		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 26,404	\$ 10,262	\$ 36,666	\$ 18,776	\$ 11,615	\$ 30,391
2017	27,806	8,860	36,666	19,433	10,958	30,391
2018	27,111	7,459	34,570	20,113	10,278	30,391
2019	27,597	6,273	33,870	20,817	9,574	30,391
2020	28,821	5,102	33,923	21,546	8,845	30,391
2021-2025	108,998	8,372	117,370	119,583	32,372	151,955
2026-2030	-	-	-	111,591	9,930	121,521
Total	<u>\$ 246,737</u>	<u>\$ 46,328</u>	<u>\$ 293,065</u>	<u>\$ 331,859</u>	<u>\$ 93,572</u>	<u>\$ 425,431</u>

Year Ending December 31,	Governmental Activities		
	Equipment Certificates		
	Principal	Interest	Total
2016	\$ 38,000	\$ 3,425	\$ 41,425
2017	38,750	2,465	41,215
2018	39,250	1,491	40,741
2019	40,000	500	40,500
Total	<u>\$ 156,000</u>	<u>\$ 7,881</u>	<u>\$ 163,881</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (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, \$9,866 for the copier lease and \$7,575 for the postage machine lease. There was accumulated depreciation of \$433,769 on the City Hall building, \$5,262 on the copier lease, and \$379 for the postage lease for 2015.

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, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following 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.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERF Benefits

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 members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2015. The City contributions to the GERF for the year ended December 31, 2015, were \$27,566. The City contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2015. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2015. The City contributions to the PEPFF for the year ended December 31, 2015, were \$50,492. The City contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City reported a liability of \$326,499 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City proportion was 0.0061 percent which was no change from its proportionate measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$36,042 for its proportionate share of the GERF's pension expense.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

At December 31, 2015, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 3,028	\$ 16,461
Changes of Assumptions	20,332	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	29,064
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	-
City Contributions Made Subsequent to the Measurement Date	13,444	-
Total	<u>\$ 36,804</u>	<u>\$ 45,525</u>

\$13,444 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December, 31</u>	<u>Pension Expense Amount</u>
2016	\$ (6,070)
2017	(6,070)
2018	(17,751)
2019	7,726

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$386,320 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City proportion was 0.034 percent which was an increase of .001 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$62,208 for its proportionate share of the PEPFF's pension expense. The City also recognized \$3,060 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PEPFF	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Description</u>	<u>of Resources</u>	<u>of Resources</u>
Differences Between Expected and Actual Experience	\$ 40	\$ 62,648
Changes of Assumptions	7,127	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	54,120	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	9,000	-
City Contributions Made Subsequent to the Measurement Date	26,208	-
Total	<u>\$ 96,495</u>	<u>\$ 62,648</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFF Pension Costs (Continued)

\$26,208 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December, 31	Pension Expense Amount
2016	\$ 3,493
2017	3,493
2018	3,493
2019	7,890
2020	(10,730)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per Year
Active Member Payroll Growth	3.50% per Year
Investment Rate of Return	7.90% per Year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1 percent effective every January 1st through 2026 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2015: the discount rate was changed from 8.0 percent through June 30, 2017 and 8.5 percent thereafter to 8.0 percent for all years, the inflation assumption was changed from 3.0 percent to 2.75 percent, the payroll growth assumption was changed from 3.75 percent to 3.5 percent, assumed increases in member salaries were decreased by 0.25 percent at all ages and the assumed postretirement benefit increase rate was changed from 1.0 percent per year through 2026 and 2.5 percent thereafter to 1.0 percent per year through 2034 and 2.5 percent per year thereafter.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.90 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45 %	5.5 %
International Stocks	15	6.0
Bonds	18	1.5
Alternative Assets	20	6.4
Cash	2	0.5
Totals	<u>100</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent for GERF and PEPFF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

The following presents the City proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (6.9%)	Current Discount Rate (7.9%)	1% Increase (8.9%)
City Proportionate Share of the GERP Net Pension Liability	\$ 513,372	\$ 326,499	\$ 172,170
City Proportionate Share of the PEPFF Net Pension Liability	752,941	386,320	83,426

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. 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.

NOTE 6 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION

A. Plan Description

Firefighters of the City are members of the Pequot Lakes Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2014, membership includes 30 active participants and 2 terminated employees entitled to benefit but not yet receiving them. The Plan issues a stand-alone financial statement.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$3,500 (increased to \$3,700 effective October 6, 2015) for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)

B. Benefits Provided (Continued)

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 10 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$3,500 for each year the member was an active member of the Pequot Lakes Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10 percent of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

C. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). The minimum contribution from the City and state aid is determined as follows:

	Normal Cost	
+	Amortization Payment on Unfunded Accrued Liability Prior to Any Change	
+	Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change	
+	Administrative Expenses	
-	Anticipated State Aid	
-	Projected Investment Earnings	
=	Total Contribution Required	

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)

C. Contributions (Continued)

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$48,390 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2014. Required employer contributions are calculated annually based on statutory provisions. For the year ended December 31, 2015, there was no statutorily-required City contribution to the plan.

D. Pension Costs

At December 31, 2015, the City reported an asset of \$382,292 for the Association's net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of (\$2,020) for the year ended December 31, 2015. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	15,312
City Contributions Subsequent to the Measurement Date	56,090	-
Total	<u>\$ 56,090</u>	<u>\$ 15,312</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)

D. Pension Costs (Continued)

The City contributions to the Association subsequent to the measurement date, \$56,090 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to the Association’s pension will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (3,828)
2017	(3,828)
2018	(3,828)
2019	(3,828)

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/14
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Actuarial Assumptions:	
Discount Rate	4.00%
Investment Rate of Return	4.00%
20-Year Municipal Bond Yield	3.50%
Age of Service Retirement	50

The best-estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best-estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)

E. Actuarial Assumptions (Continued)

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Allocation at December 31, 2014</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	46.00%	2.00%
Fixed Income	25.00%	4.00%
Equities	29.00%	7.50%
Total Portfolio	<u>100.00%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 4.00 percent. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

G. Pension Asset Sensitivity

The following presents the City's proportionate share of the net pension asset of the Association, calculated using the discount rate of 4.00 percent, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.00 percent) or one percentage point higher (5.00 percent) than the current rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Net Pension Liability (Asset)	\$ (357,401)	\$ (382,292)	\$ (406,315)
Discount Rate	3.00%	4.00%	5.00%

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)

H. Plan's Fiduciary Net Position

Information about the Plan's fiduciary net position is as follows:

	2014
Assets	
Cash and Investments	\$ 1,382,536
Accounts Receivable	9,517
Total Assets	\$ 1,392,053
Net Position	
Unrestricted	\$ 1,392,053
Revenues	
Fire State Aid	\$ 45,390
State 10% Supplemental Reimbursement	3,000
Municipal Contribution	46,629
Interest	71,726
Total Revenues	166,745
Expenses	
Pension Distributions	78,000
Administrative	5,670
Total Expenses	83,670
Change in Net Position	83,075
Beginning Net Position	1,308,978
Ending Net Position	\$ 1,392,053

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)

H. Plan's Fiduciary Net Position (Continued)

Information about the changes in the Plan's net pension asset is as follows:

	<u>Measurement Date December 31, 2014</u>
<u>Total Pension Liability</u>	
Service Cost	\$ 48,196
Interest	36,930
Benefit Payments, Including Member Refunds	<u>(78,000)</u>
Net Change in Total Pension Liability	7,126
Total Pension Liability - Beginning	<u>1,002,635</u>
Total Pension Liability - Ending (a)	1,009,761
<u>Plan Fiduciary Net Position</u>	
Municipal Contributions	46,629
State Contributions	48,390
Net Investment Income	71,726
Benefit Payments	<u>(78,000)</u>
Administrative Expenses	<u>(5,670)</u>
Net Change in Fiduciary Net Position	83,075
Fiduciary Net Position - Beginning	<u>1,308,978</u>
Fiduciary Net Position - Ending (b)	1,392,053
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (382,292)</u>

NOTE 7 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.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 8 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended December 31, 2015, the City adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statements No. 68*. These pronouncements require the restatement of the December 31, 2014, net position as follows:

	<u>Governmental Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Net Position, December 31, 2014, as Previously Reported	\$ 8,412,557	\$ 794,432	\$ 1,520,462	\$ 10,727,451
Cumulative Affect of Application of GASB 68, Net Pension Liability and related beginning deferred inflows and outflows of resources	(367,455)	(16,055)	(16,055)	(399,565)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for District Contributions Made to the Plan After the Measurement Period (7/1/14 - 12/31/14)	83,706	665	665	85,036
Net Position, December 31, 2014, as Restated	<u>\$ 8,128,808</u>	<u>\$ 779,042</u>	<u>\$ 1,505,072</u>	<u>\$ 10,412,922</u>

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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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,447,698	\$ 1,447,698	\$ 1,493,987	\$ 46,289
Special Assessments	350	350	818	468
Licenses and Permits	13,570	13,570	15,020	1,450
Intergovernmental	115,190	115,190	167,240	52,050
Charges for Services	120,520	120,520	121,332	812
Fines and Forfeits	13,500	13,500	12,161	(1,339)
Gifts and Contributions	17,000	17,000	57,247	40,247
Investment Earnings	22,000	22,000	12,655	(9,345)
Miscellaneous	19,480	19,480	87,102	67,622
Total Revenues	1,769,308	1,769,308	1,967,562	198,254
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Council	26,150	26,150	35,127	(8,977)
Clerk	238,880	238,880	225,909	12,971
Planning and Zoning	87,470	87,470	62,615	24,855
Buildings and Plant	46,270	46,270	35,603	10,667
Other General Government	108,950	108,950	103,865	5,085
Total General Government	507,720	507,720	463,119	44,601
PUBLIC SAFETY				
Police	583,430	583,430	604,885	(21,455)
Fire	82,600	82,600	82,801	(201)
Civil Defense	1,200	1,200	1,532	(332)
Total Public Safety	667,230	667,230	689,218	(21,988)
HIGHWAYS AND STREETS				
Public Works	282,770	282,770	278,739	4,031
Street Lighting	16,200	16,200	14,236	1,964
Traffic Signs and Signals	3,950	3,950	2,143	1,807
Total Highways and Streets	302,920	302,920	295,118	7,802
SANITATION				
Recycling	10,000	10,000	8,971	1,029
CULTURE AND RECREATION				
Parks	16,050	16,050	33,906	(17,856)
Regional Library	17,150	17,150	12,111	5,039
Total Culture and Recreation	33,200	33,200	46,017	(12,817)

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, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (CONTINUED)				
CURRENT (CONTINUED)				
ECONOMIC DEVELOPMENT				
Housing and Redevelopment Authority	\$ 38,108	\$ 38,108	\$ 45,805	\$ (7,697)
CAPITAL OUTLAY				
General Government	11,230	11,230	14,085	(2,855)
Public Safety	50,740	50,740	113,079	(62,339)
Highways and Streets	141,220	141,220	199,721	(58,501)
Culture and Recreation	34,075	34,075	12,080	21,995
Total Capital Outlay	<u>237,265</u>	<u>237,265</u>	<u>338,965</u>	<u>(101,700)</u>
DEBT SERVICE				
Principal	22,170	22,170	24,192	(2,022)
Interest	9,850	9,850	7,818	2,032
Total Debt Service	<u>32,020</u>	<u>32,020</u>	<u>32,010</u>	<u>10</u>
Total Expenditures	<u>1,828,463</u>	<u>1,828,463</u>	<u>1,919,223</u>	<u>(90,760)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(59,155)	(59,155)	48,339	107,494
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(43,916)	(43,916)
Proceeds from Sale of Assets	7,500	7,500	1,955	(5,545)
Proceeds from Capital Lease	-	-	4,544	4,544
TOTAL OTHER FINANCING SOURCES (USES)	<u>7,500</u>	<u>7,500</u>	<u>(37,417)</u>	<u>(44,917)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (51,655)</u>	<u>\$ (51,655)</u>	10,922	<u>\$ 62,577</u>
Fund Balance - Beginning of Year			<u>1,350,843</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,361,765</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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 68,882	\$ 68,882
Charges for Services	184,880	184,880	177,852	(7,028)
Gifts and Contributions	-	-	7,200	7,200
Investments Earnings	3,000	3,000	857	(2,143)
Debt Reserve Revenues	-	-	3,039	3,039
Miscellaneous	5,800	5,800	246	(5,554)
Total Revenues	<u>193,680</u>	<u>193,680</u>	<u>258,076</u>	<u>64,396</u>
EXPENDITURES				
CURRENT				
Public Safety				
Fire	137,420	137,420	202,054	(64,634)
CAPITAL OUTLAY				
Public Safety	12,000	12,000	80,182	(68,182)
DEBT SERVICE				
Principal	30,440	30,440	18,141	12,299
Interest	13,820	13,820	12,250	1,570
Total Debt Service	<u>44,260</u>	<u>44,260</u>	<u>30,391</u>	<u>13,869</u>
Total Expenditures	<u>193,680</u>	<u>193,680</u>	<u>312,627</u>	<u>(118,947)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(54,551)</u>	<u>\$ (54,551)</u>
Fund Balance - Beginning of Year			<u>127,289</u>	
FUND BALANCE - END OF YEAR			<u>\$ 72,738</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, 2015**

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 Administrator/Clerk 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 fund. 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

In the following funds, expenditures exceeded the appropriations during the year ended December 31, 2015:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 1,919,223	\$ 1,828,463	\$ 90,760
Special Revenue Funds			
Fire Fund	312,627	193,680	118,947

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.

**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015**

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)
1/1/2015	\$ -	\$ 94,546	\$ 94,549	- %	\$ 607,093	15.6 %
1/1/2012	-	105,338	105,338	-	580,558	18.1
1/1/2009	-	118,698	118,698	-	616,864	19.2

**CITY OF PEQUOT LAKES, MINNESOTA
PEQUOT LAKES FIREMAN'S RELIEF ASSOCIATION
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND RELATED RATIOS**

	<u>Measurement Date December 31, 2014</u>
<u>Total Pension Liability</u>	
Service Cost	\$ 48,196
Interest	36,930
Benefit Payments, Including Member Refunds	(78,000)
Net Change in Total Pension Liability	<u>7,126</u>
Total Pension Liability - Beginning	1,002,635
Total Pension Liability - Ending (a)	<u>1,009,761</u>
<u>Plan Fiduciary Net Position</u>	
Municipal Contributions	46,629
State Contributions	48,390
Net Investment Income	71,726
Benefit Payments	(78,000)
Administrative Expenses	(5,670)
Net Change in Fiduciary Net Position	<u>83,075</u>
Fiduciary Net Position - Beginning	<u>1,308,978</u>
Fiduciary Net Position - Ending (b)	1,392,053
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u><u>\$ (382,292)</u></u>
Fiduciary Net Position as a Percentage of the Total Pension Asset	137.86%
Covered-Employee Payroll	N/A
Net Pension Liability/(Asset) as a Percentage of Covered-Employee	N/A

**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (ASSET)**

	Measurement Date June 30, 2015
PERA - GERF - City	
City's Proportion of the Net Pension Liability	0.0063%
City's Proportionate Share of the Net Pension Liability	\$ 326,499
City's Covered-Employee Payroll	\$ 369,980
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	88.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%
PERA - PEPFF - City	
City's Proportion of the Net Pension Liability	0.0340%
City's Proportionate Share of the Net Pension Liability	\$ 386,320
City's Covered-Employee Payroll	\$ 311,104
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	124.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.30%
	Measurement Date December 31, 2014
Fire Relief Association	
City's Proportion of the Net Pension Liability (Asset)	100.0000%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ (382,292)
City's Covered-Employee Payroll	N/A
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	N/A
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	137.86%

**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF CITY PENSION CONTRIBUTIONS**

	<u>2015</u>	<u>2014</u>
PERA - GERP - City		
Contractually Required Contribution	\$ 27,566	\$ 25,559
Contributions in Relation to the Contractually Required Contribution	<u>(27,566)</u>	<u>(25,559)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 367,547	\$ 352,531
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.25%
 PERA - PEPFF - City		
Contractually Required Contribution	\$ 50,492	\$ 47,017
Contributions in Relation to the Contractually Required Contribution	<u>(50,492)</u>	<u>(47,017)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 311,680	\$ 307,297
Contributions as a Percentage of Covered Employee Payroll	16.20%	15.30%
 Fire Relief Association		
Statutorily Required Contribution	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	<u>-</u>	<u>-</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	N/A	N/A
Contributions as a Percentage of Covered Employee Payroll	N/A	N/A

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SUPPLEMENTARY INFORMATION

**CITY OF PEQUOT LAKES, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

ASSETS	Cemetery Perpetual Care	TIF 1-7 Babinsky	TIF 1-9 Lime Greenery	TIF 1-13 Lonesome Cottage
Cash and Investments	\$ 61,026	\$ 27,353	\$ 3,090	\$ -
Taxes Receivable				
Current	-	-	-	-
Total Assets	<u>\$ 61,026</u>	<u>\$ 27,353</u>	<u>\$ 3,090</u>	<u>\$ -</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ 27,353	\$ 1,807	\$ 11,562
Due to Other Funds	-	-	-	43,671
Total Liabilities	<u>-</u>	<u>27,353</u>	<u>1,807</u>	<u>55,233</u>
 FUND BALANCES				
Restricted for Economic Development	-	-	1,283	-
Restricted for Debt Repayment	-	-	-	-
Committed for Cemetery Perpetual Care	61,026	-	-	-
Unassigned	-	-	-	(55,233)
Total Fund Balances (Deficits)	<u>61,026</u>	<u>-</u>	<u>1,283</u>	<u>(55,233)</u>
 Total Liabilities and Fund Balances	 <u>\$ 61,026</u>	 <u>\$ 27,353</u>	 <u>\$ 3,090</u>	 <u>\$ -</u>

Total Nonmajor Special Revenue Funds	2014 Equipment Certificates	2010 Equipment Certificates	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 91,469	\$ 42,609	\$ 228	\$ 42,837	\$ 134,306
-	989	12	1,001	1,001
<u>\$ 91,469</u>	<u>\$ 43,598</u>	<u>\$ 240</u>	<u>\$ 43,838</u>	<u>\$ 135,307</u>

\$ 40,722	\$ -	\$ -	\$ -	\$ 40,722
43,671	-	-	-	43,671
<u>84,393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,393</u>
1,283	-	-	-	1,283
-	43,598	240	43,838	43,838
61,026	-	-	-	61,026
(55,233)	-	-	-	(55,233)
<u>7,076</u>	<u>43,598</u>	<u>240</u>	<u>43,838</u>	<u>50,914</u>
<u>\$ 91,469</u>	<u>\$ 43,598</u>	<u>\$ 240</u>	<u>\$ 43,838</u>	<u>\$ 135,307</u>

**CITY OF PEQUOT LAKES, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2015**

	Cemetery Perpetual Care	TIF 1-7 Babinsky	TIF 1-9 Lime Greenery	TIF 1-13 Lonesome Cottage
REVENUES				
Taxes	\$ -	\$ 25,206	\$ 4,014	\$ 25,692
Charges for Services	2,800	-	-	-
Investment Earnings	562	156	10	-
Miscellaneous	11	-	-	-
Total Revenues	3,373	25,362	4,024	25,692
EXPENDITURES				
CURRENT				
General Government	1,122	-	-	-
Public Safety	-	-	-	-
Economic Development	-	41,040	3,741	23,248
CAPITAL OUTLAY				
Public Safety	-	-	-	-
DEBT SERVICE				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	1,122	41,040	3,741	23,248
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,251	(15,678)	283	2,444
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
NET CHANGE IN FUND BALANCES	2,251	(15,678)	283	2,444
Fund Balance (Deficit) - Beginning of Year	58,775	15,678	1,000	(57,677)
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 61,026	\$ -	\$ 1,283	\$ (55,233)

Total Nonmajor Special Revenue Funds	2014 Equipment Certificates	2010 Equipment Certificates	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 54,912	42,506	\$ 1,297	\$ 43,803	\$ 98,715
2,800	-	-	-	2,800
728	102	54	156	884
11	-	-	-	11
58,451	42,608	1,351	43,959	102,410
1,122	-	-	-	1,122
-	-	10	10	10
68,029	-	-	-	68,029
-	-	7,893	7,893	7,893
-	37,000	27,000	64,000	64,000
-	4,402	675	5,077	5,077
69,151	41,402	35,578	76,980	146,131
(10,700)	1,206	(34,227)	(33,021)	(43,721)
-	43,916	-	43,916	43,916
(10,700)	45,122	(34,227)	10,895	195
17,776	(1,524)	34,467	32,943	50,719
\$ 7,076	\$ 43,598	\$ 240	\$ 43,838	\$ 50,914

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REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*

**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, 2015, 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 13, 2016.

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 2015-001 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 2015-002 and 2015-003 as described in the accompanying schedule of findings and recommendations to be significant deficiencies.

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*.

The City's Responses 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 13, 2016

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**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2015**

MATERIAL WEAKNESS (FINANCIAL REPORTING)

2015-001 Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition: The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures, are complete, and presented in accordance with GAAP.

Context: Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

Cause: The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls in the normal course of business.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

Management Response: The City will continue to evaluate whether an internal control policy over financial reporting would be beneficial.

**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

SIGNIFICANT DEFICIENCIES

2015-002 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.

Context: Management has informed us the size and budget of the City limit the number of personnel performing these duties.

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.

Management 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, 2015**

SIGNIFICANT DEFICIENCIES (CONTINUED)

2015-003 PERA SUBMISSION

Criteria: City management should constantly be aware of the need to have adequate controls over payroll submission to PERA in order to verify the correct information is reported to PERA and controls over entering new employee information into the City's payroll system.

Condition: Adequate controls over PERA submission are necessary to ensure accurate information is provided to PERA. The City has had a turnover in staffing, and therefore, the process of submitting correct exclusion information to PERA was missed. There were two part time police officers that were hired during the plan year but were not properly included on the PERA exclusion report.

Context: Management has informed us that a step was missed during the entering of the new employee information into the payroll system.

Cause: Management has informed us that this step was missed when training in new staff.

Effect: The design of the internal controls over the entry of new employees into the payroll system could affect the ability of the City to properly report information to PERA.

Recommendation: We recommend City management be aware of the finding and add an additional procedure of reviewing the information entered into the system for new employees.

Management Response: The City will add another step in the process for entering new employees into the system and it will be reviewed by the City Administrator/Clerk.

**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

OTHER ITEM FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

2015-004 CONTRACT COMPLIANCE

Criteria: Minnesota Statutes §240C.66, requires the City to obtain a Form IC-134 withholding affidavit on construction contracts prior to submitting final payment to the contractor.

Condition: The City was not presented with documented of a Form IC-134 for the City's road improvement project for which the City submitted final payment in 2015.

Cause: Unknown.

Effect: The City is not in compliance with Minnesota Statutes.

Recommendation: We recommend that the City obtain a Form IC-134 for all construction projects prior to submitting final payment to the contractor.

Management Response: The City will ensure a Form IC-134 be obtained prior to submitting final payment on all City construction projects.

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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2015, 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 13, 2016.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as noted on the schedule of findings and recommendations. 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's noncompliance with the above referenced provisions.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit the response, and accordingly, we express no opinion on it.

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

Brainerd, Minnesota
April 13, 2016

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