

CITY OF PEQUOT LAKES, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2014

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INTRODUCTORY SECTION

**CITY OF PEQUOT LAKES, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2014**

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

* Council Member resigned December 31, 2014

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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress on pages 5-16, 56-59, and 60-61, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2015, 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 6, 2015

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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, 2014. 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, 2014 and the prior year, 2013 is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 include the following:

- ◆ City-wide net position increased 2 percent over the prior year. The primary reason for the increase is due to additional operating grants, investment earnings and miscellaneous revenues received.
- ◆ Overall, governmental fund-level revenues totaled \$2,282,084 and were \$610,655 less than expenditures before other financing sources. This excess of expenditures over revenues is due to increases in capital outlay.
- ◆ The General Fund's fund balance decreased \$33,793 (2 percent) from the prior year due mainly to an increase in capital outlay expenditures relating to culture and recreation.
- ◆ The Fire Department Fund's fund balance decreased \$46,007 (27 percent) from the prior year due mainly to an increase in capital outlay expenditures.
- ◆ The Water Enterprise Fund's net position increased \$29,004 (3.8 percent) from the prior year due to charges for services in excess of operating costs. The Sewer Enterprise Fund's net position increased \$115,702 (8 percent) from the prior year due to charges for services in excess of operating costs.

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:

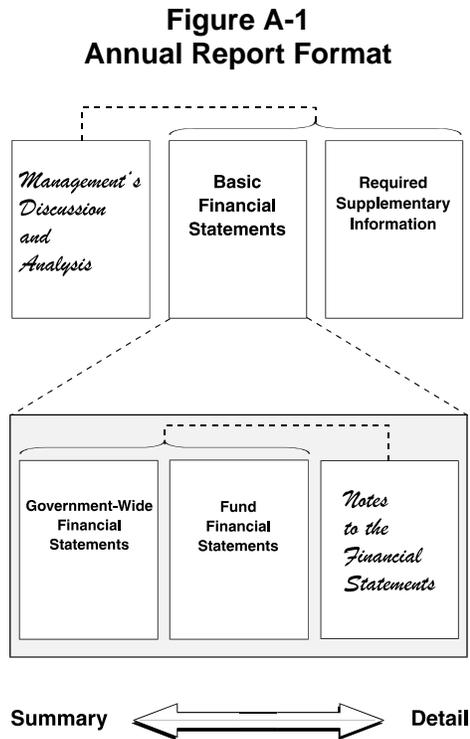
- ◆ The first two statements are City-wide financial statements which provide both short-term and long-term information about the City's overall financial status.
- ◆ The remaining statements are fund financial statements which focus on individual parts of the City, reporting the City's operations in 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, 2014**

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, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

City-Wide Statements

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

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's total net positions were \$10,727,451 on December 31, 2014 (see Table A-1).

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 2,476,104	\$ 2,492,637	\$ 1,592,814	\$ 1,501,148	\$ 4,068,918	\$ 3,993,785
Capital and Noncurrent Assets	7,087,481	6,483,536	2,000,025	2,040,768	9,087,506	8,524,304
Total Assets	<u>9,563,585</u>	<u>8,976,173</u>	<u>3,592,839</u>	<u>3,541,916</u>	<u>13,156,424</u>	<u>12,518,089</u>
Current Liabilities	269,771	179,961	168,379	208,317	438,150	388,278
Long-Term Liabilities	881,257	428,395	1,109,566	1,163,411	1,990,823	1,591,806
Total Liabilities	<u>1,151,028</u>	<u>608,356</u>	<u>1,277,945</u>	<u>1,371,728</u>	<u>2,428,973</u>	<u>1,980,084</u>
Net Position						
Net Investment in Capital Assets	6,254,015	6,144,164	852,915	838,534	7,106,930	6,982,698
Restricted	223,605	199,398	-	-	223,605	199,398
Unrestricted	1,934,937	2,024,255	1,461,979	1,331,654	3,396,916	3,355,909
Total Net Position	<u>\$ 8,412,557</u>	<u>\$ 8,367,817</u>	<u>\$ 2,314,894</u>	<u>\$ 2,170,188</u>	<u>\$ 10,727,451</u>	<u>\$ 10,538,005</u>

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$2,778,535 the year ended December 31, 2014. 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			Business-Type Activities			Total		
	2014	2013	Total % Change	2014	2013	Total % Change	2014	2013	Total % Change
REVENUES									
<u>Program Revenues</u>									
Charges for Services	\$ 327,105	\$ 327,211	- %	\$ 475,451	\$ 509,060	(6.6)%	\$ 802,556	\$ 836,271	(4.0)%
Operating Grants and Contributions	241,298	150,476	60.4	-	3,400	100.0	241,298	153,876	56.8
Capital Grants and Contributions	11,911	14,694	(18.9)	-	-	-	11,911	14,694	(18.9)
<u>General Revenues</u>									
Property Taxes	1,525,344	1,583,621	(3.7)	-	-	-	1,525,344	1,583,621	(3.7)
Unrestricted State Aid	79,636	62,084	28.3	-	-	-	79,636	62,084	28.3
Investment Earnings	32,914	6,217	429.4	21,813	3,704	488.9	54,727	9,921	451.6
Other	58,063	30,595	89.8	5,000	5,000	-	63,063	35,595	77.2
Total Revenues	<u>2,276,271</u>	<u>2,174,898</u>	4.7	<u>502,264</u>	<u>521,164</u>	(3.6)	<u>2,778,535</u>	<u>2,696,062</u>	3.1
EXPENSES									
General Government	546,543	490,702	11.4	-	-	-	546,543	490,702	11.4
Public Safety	954,354	898,891	6.2	-	-	-	954,354	898,891	6.2
Highways and Streets	517,548	469,298	10.3	-	-	-	517,548	469,298	10.3
Sanitation	14,276	11,974	19.2	-	-	-	14,276	11,974	19.2
Water	-	-	-	216,501	193,638	11.8	216,501	193,638	11.8
Sewer	-	-	-	141,057	122,765	14.9	141,057	122,765	14.9
Culture and Recreation	79,609	52,915	50.4	-	-	-	79,609	52,915	50.4
Economic Development	93,743	104,538	(10.3)	-	-	-	93,743	104,538	(10.3)
Interest	25,458	14,357	77.3	-	-	-	25,458	14,357	77.3
Total Expenses	<u>2,231,531</u>	<u>2,042,675</u>	9.2	<u>357,558</u>	<u>316,403</u>	13.0	<u>2,589,089</u>	<u>2,359,078</u>	9.8
CHANGE IN NET POSITION	44,740	132,223	(66.2)	144,706	204,761	(29.3)	189,446	336,984	(43.8)
Net Position - Beginning of Year	8,367,817	8,235,594		2,170,188	2,014,412		10,538,005	10,250,006	
Change in Accounting Principle	-	-		-	48,985		-	48,985	
Net Position - Beginning of Year, As Restated	<u>8,367,817</u>	<u>8,235,594</u>	1.6	<u>2,170,188</u>	<u>1,965,427</u>	10.4	<u>10,538,005</u>	<u>10,201,021</u>	3.3
NET POSITION - END OF YEAR	<u>\$ 8,412,557</u>	<u>\$ 8,367,817</u>		<u>\$ 2,314,894</u>	<u>\$ 2,170,188</u>		<u>\$ 10,727,451</u>	<u>\$ 10,538,005</u>	

Total revenues surpassed expenses, increasing net position \$189,446 over last year.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 \$2,231,531.

- ◆ Some of the cost was paid by the users of the City's programs \$327,105.
- ◆ The federal and state governments subsidized certain programs with grants and contributions \$253,209.
- ◆ The remainder of the City's governmental activities costs of \$1,741,217, 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 2014

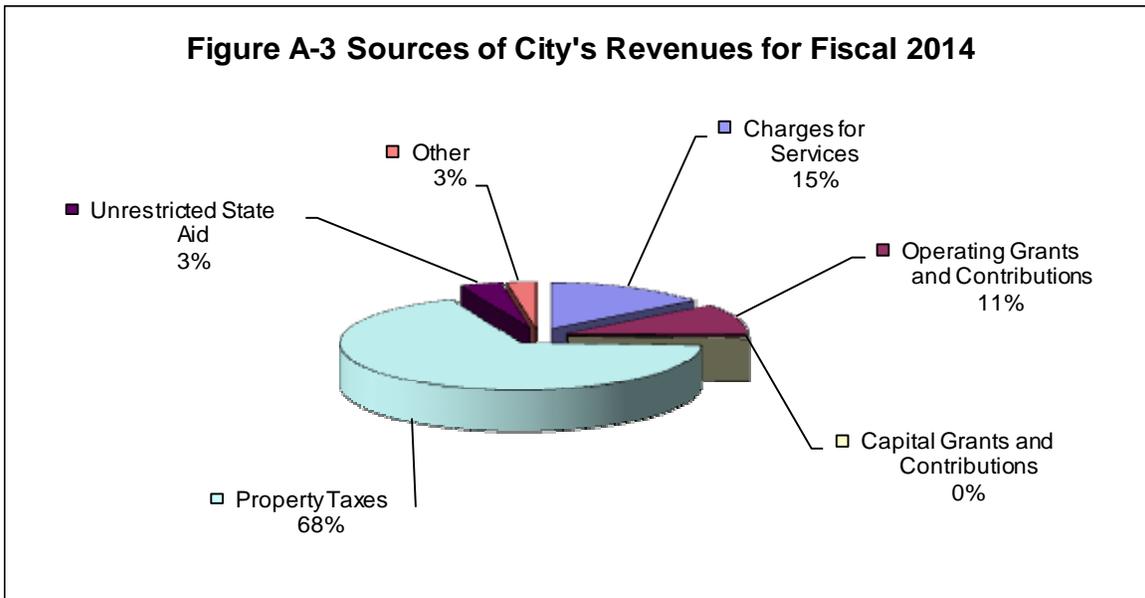
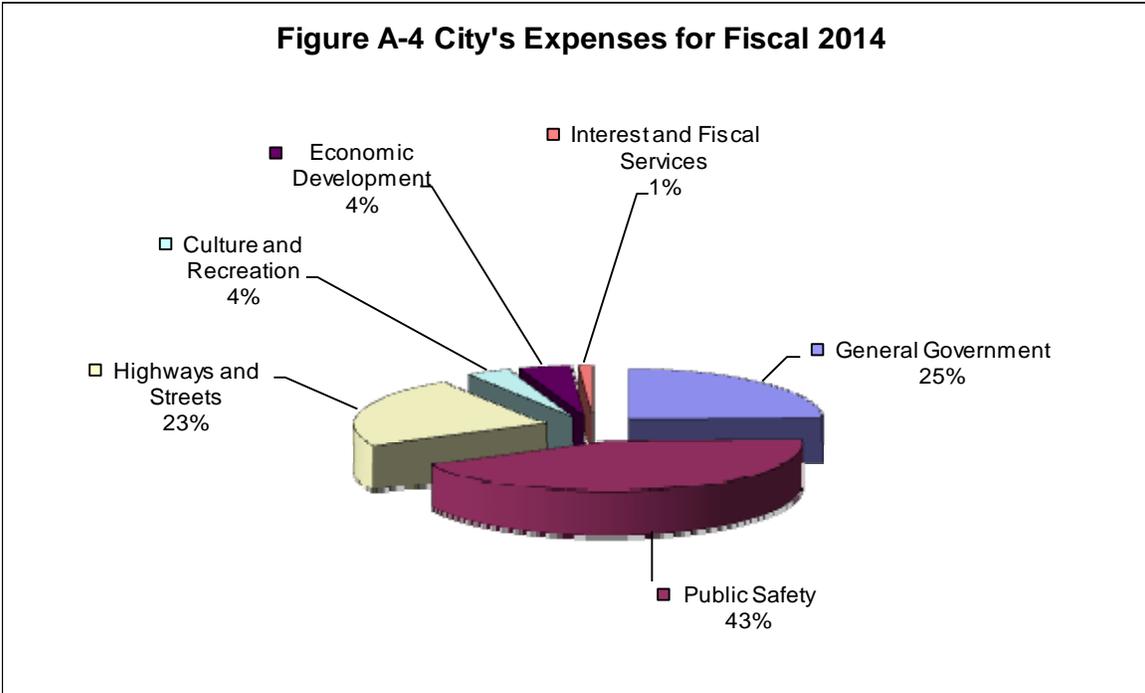


Figure A-4 City's Expenses for Fiscal 2014



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**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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
	2014	2013		2014	2013	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 546,543	\$ 490,702	11.4 %	\$ 512,821	\$ 454,291	12.9 %
Public Safety	954,354	898,891	6.2	583,054	538,919	8.2
Highways and Streets	517,548	469,298	10.3	519,861	468,829	10.9
Sanitation	14,276	11,974	19.2	13,464	(4,889)	375.4
Culture and Recreation	79,609	52,915	50.4	(82,960)	(11,526)	(619.8)
Economic Development	93,743	104,538	(10.3)	79,519	90,313	(12.0)
Interest	25,458	14,357	77.3	25,458	14,357	77.3
Total	<u>\$ 2,231,531</u>	<u>\$ 2,042,675</u>	9.2	<u>\$ 1,651,217</u>	<u>\$ 1,550,294</u>	6.5

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 \$2,186,761.

Revenues for the City's governmental funds were \$2,282,084, while total expenditures were \$2,892,739.

The General Fund's fund balance decreased \$33,793 from the prior year. This is due primarily to an increase in capital outlay expenditures.

The Fire Fund's fund balance decreased \$46,007 from the prior year, due primarily to an increase in capital outlay expenditures.

The Business Park Fund's fund balance increased \$20,838 from the prior year due to minimal business park expenditures.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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

The Water Enterprise Fund's net position increased \$29,004 from the prior year. This is due to the operating revenues over operating expenses.

The Sewer Enterprise Fund's net position increased \$115,702. This is due to the operating revenues over operating expenses.

GENERAL FUND

The following schedule presents a summary of General Fund Revenues:

**Table A-4
General Fund Revenues**

	Year Ended		Change	
	December 31,	December 31,	Increase	Percent
	2014	2013	(Decrease)	
Taxes and Specials	\$ 1,434,486	\$ 1,431,664	\$ 2,822	0.2 %
Intergovernmental	130,216	129,402	814	0.6
Charges for Services	120,987	128,365	(7,378)	(5.7)
Interest	19,832	4,013	15,819	394.2
Miscellaneous	218,201	82,460	135,741	164.6
Total General Fund Revenue	<u>\$ 1,923,722</u>	<u>\$ 1,775,904</u>	<u>\$ 147,818</u>	8.3

Total General Fund revenue increased by \$147,818, or (8.3 percent), from the previous year. This is due primarily to increased donations for City projects.

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
	2014	2013	(Decrease)	
General Government	\$ 478,720	\$ 442,617	\$ 36,103	8.2 %
Public Safety	679,503	714,867	(35,364)	(4.9)
Highways and Streets	565,977	415,862	150,115	36.1
Sanitation	14,276	11,974	2,302	19.2
Culture and Recreation	149,008	53,185	95,823	180.2
Economic Development	43,492	34,589	8,903	25.7
Debt Service	33,620	33,178	442	1.3
Total Expenditures	<u>\$ 1,964,596</u>	<u>\$ 1,706,272</u>	<u>\$ 258,324</u>	15.1

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 \$186,137 more than expected due to an increase in gifts and contributions.
- ◆ The actual expenditures were \$51,391 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 2014.

CAPITAL ASSETS

By the end of 2014, the City had invested approximately \$16,100,000 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 \$453,820 (including the enterprise funds).

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

	Governmental Activities		Percent Change	Business-Type Activities		Percent Change	Total		Percent Change
	2014	2013		2014	2013		2014	2013	
Land	\$ 1,504,339	\$ 1,524,241	(1.3)%	\$ 178,167	\$ 178,167	- %	\$ 1,682,506	\$ 1,702,408	(1.2)%
Construction-in-Progress	-	20,146	100.0	-	-	-	-	20,146	100.0
Infrastructure	5,637,721	5,332,900	5.7	427,071	393,117	8.6	6,064,792	5,726,017	5.9
Buildings	1,536,861	1,536,861	-	1,125,329	1,125,329	-	2,662,190	2,662,190	-
Machinery, Equipment, and Vehicles	2,564,226	1,946,682	31.7	3,145,889	3,125,927	0.6	5,710,115	5,072,609	12.6
Less: Accumulated Depreciation	(4,155,666)	(3,877,294)	7.2	(2,876,431)	(2,781,772)	3.4	(7,032,097)	(6,659,066)	5.6
Total	\$ 7,087,481	\$ 6,483,536	9.3	\$ 2,000,025	\$ 2,040,768	(2.0)	\$ 9,087,506	\$ 8,524,304	6.6

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

LONG-TERM LIABILITIES

At year-end, the City had \$2,170,518 (net of related discounts and premiums) in long-term liabilities outstanding.

- ◆ The City's governmental activities total long-term debt increased \$509,147 due primarily to the issuance of a loan borrowed from the USDA to purchase a fire truck and the issuance of Equipment Certificates to purchase a plow truck. The City's business-type activities total long-term debt decreased \$53,935 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**

	2014	2013	Percentage Change
GOVERNMENTAL ACTIVITIES			
Equipment Certificates	\$ 220,000	\$ 53,000	315.1 %
Capital Leases	263,467	286,372	(8.0)
Compensated Absences Payable	38,677	40,415	(4.3)
Other Postemployment Benefit Payable	133,112	116,322	14.4
Total	<u>\$ 1,005,256</u>	<u>\$ 496,109</u>	102.6
BUSINESS-TYPE ACTIVITIES			
General Obligation Bonds	\$ 1,147,110	\$ 1,202,234	(4.6)%
Compensated Absences Payable	2,582	2,465	4.7
Other Postemployment Benefit Payable	15,570	14,498	7.4
Total	<u>\$ 1,165,262</u>	<u>\$ 1,219,197</u>	(4.4)

FACTORS BEARING ON THE CITY'S FUTURE

Highway 371 Expansion

The proposed Highway 371 project is expected to begin in 2015. Federal and state funding may have an influence on whether this project takes place in 2015 or perhaps beyond that date. MnDOT began right-of-way acquisition in 2014. The City has begun preparing for this project. Issues related to this highway project that will affect the City include roads that will possibly be turned back to the City, County Road 11 as the major corridor entrance to the City, and the City's spray irrigation field.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandy Peine, City Clerk-Treasurer or Nancy Malecha, Finance Administrator 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, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 2,215,808	\$ 1,461,197	\$ 3,677,005
Petty Cash and Change Funds	942	-	942
Taxes Receivable			
Unapportioned	31,395	-	31,395
Delinquent	156,186	-	156,186
Special Assessments Receivable			
Noncurrent	225	1,420	1,645
Accounts Receivable, Net of Allowance	11,613	130,197	141,810
Accrued Interest Receivable	393	-	393
Due from Other Governments	795	-	795
Debt Reserve Restricted Cash	2,279	-	2,279
Loans Receivable	30,684	-	30,684
Land Held for Resale	25,784	-	25,784
Capital Assets not Being Depreciated			
Land	1,504,339	178,167	1,682,506
Capital Assets Being Depreciated			
Building (Net)	1,000,889	68,575	1,069,464
Machinery, Vehicles, Furniture and Equipment (Net)	1,148,051	1,414,586	2,562,637
Infrastructure (Net)	3,434,202	338,697	3,772,899
Total Assets	9,563,585	3,592,839	13,156,424
LIABILITIES			
Accounts Payable	109,353	101,132	210,485
Salaries Payable	20,544	944	21,488
Due to Other Governments	3,260	140	3,400
Accrued Interest Payable	12,615	10,467	23,082
Compensated Absences Payable - Due Within One Year	17,833	696	18,529
Loans Payable - Due Within One Year	18,141	-	18,141
General Obligation Refunding Bonds Payable - Due Within One Year	-	55,000	55,000
Equipment Certificates - Due Within One Year	64,000	-	64,000
Capital Leases Payable - Due Within One Year	24,025	-	24,025
Compensated Absences Payable - Due in More than One Year	20,844	1,886	22,730
Loans Payable - Due in More than One Year	331,859	-	331,859
General Obligation Refunding Bonds Payable - Due in More than One Year	-	1,092,110	1,092,110
Equipment Certificates - Due in More than One Year	156,000	-	156,000
Capital Leases Payable - Due in More than One Year	239,442	-	239,442
Other Postemployment Benefits Payable - Due in More than One Year	133,112	15,570	148,682
Total Liabilities	1,151,028	1,277,945	2,428,973
NET POSITION			
Net Investment in Capital Assets	6,254,015	852,915	7,106,930
Restricted for Library	55,078	-	55,078
Restricted for Forfeiture	256	-	256
Restricted for Park Dedication	28,285	-	28,285
Restricted by Donor - Splash Park	15,000	-	15,000
Restricted for Loans Receivable	76,414	-	76,414
Restricted for Economic Development	16,678	-	16,678
Restricted for Debt Service	31,894	-	31,894
Unrestricted	1,934,937	1,461,979	3,396,916
Total Net Position	\$ 8,412,557	\$ 2,314,894	\$ 10,727,451

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

<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	\$ 546,543	\$ 28,761	\$ 4,961	\$ -
Public Safety	954,354	276,721	94,579	-
Highways and Streets	517,548	-	-	(2,313)
Sanitation	14,276	312	500	-
Culture and Recreation	79,609	21,311	141,258	-
Economic Development	93,743	-	-	14,224
Interest	25,458	-	-	-
Total Governmental Activities	2,231,531	327,105	241,298	11,911
Business-Type Activities				
Water	216,501	237,358	-	-
Sewer	141,057	238,093	-	-
Total Business-Type Activities	357,558	475,451	-	-
Total Primary Government	\$ 2,589,089	\$ 802,556	\$ 241,298	\$ 11,911

General Revenues

Property Taxes

Grants and Contributions not Restricted for a Particular Purpose

Investment Earnings

Miscellaneous

Gain on Sale of Capital Assets

Total General Revenues and Transfers

CHANGE IN NET POSITION

Net Position - Beginning of Year

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
\$ (512,821)	\$ -	\$ (512,821)
(583,054)	-	(583,054)
(519,861)	-	(519,861)
(13,464)	-	(13,464)
82,960	-	82,960
(79,519)	-	(79,519)
(25,458)	-	(25,458)
(1,651,217)	-	(1,651,217)
-	20,857	20,857
-	97,036	97,036
-	117,893	117,893
(1,651,217)	117,893	(1,533,324)
1,525,344	-	1,525,344
79,636	-	79,636
32,914	21,813	54,727
49,949	5,000	54,949
8,114	-	8,114
1,695,957	26,813	1,722,770
44,740	144,706	189,446
8,367,817	2,170,188	10,538,005
\$ 8,412,557	\$ 2,314,894	\$ 10,727,451

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FUND FINANCIAL STATEMENTS

**CITY OF PEQUOT LAKES, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

ASSETS	Major Funds	
	General	Fire Department
Cash and Investments	\$ 1,398,598	\$ 137,622
Petty Cash and Change Funds	942	-
Taxes Receivable		
Current	30,386	-
Noncurrent	156,186	-
Special Assessments Receivable		
Current	225	-
Accounts Receivable, Net of Allowance	10,335	1,278
Accrued Interest Receivable	393	-
Due from Other Governments	795	-
Due from Other Funds	1,524	-
Debt Reserve Restricted Cash	-	2,279
Land Held for Resale	-	-
Loans Receivable	-	-
Total Assets	\$ 1,599,384	\$ 141,179
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 68,551	\$ 13,890
Due to Other Governments	3,260	-
Salaries Payable	20,544	-
Due to Other Funds	-	-
Total Liabilities	92,355	13,890
DEFERRED INFLOWS OF RESOURCES		
Unavailable for Taxes	156,186	-
FUND BALANCES (DEFICITS)		
Nonspendable	-	-
Restricted for Forfeiture	256	-
Restricted for Park Dedication	28,285	-
Restricted by Donor - Splash Park	15,000	-
Restricted for Loans Receivable	-	-
Restricted for Other Governmental Funds	-	-
Restricted for Library	55,078	-
Committed for Library	90,860	-
Committed for Capital Outlay	154,723	26,309
Committed for Fire Protection Services	-	100,980
Committed for Business Park	-	-
Committed for Other Governmental Funds	-	-
Unassigned	1,006,641	-
Total Fund Balances (Deficits)	1,350,843	127,289
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,599,384	\$ 141,179

See accompanying Notes to Financial Statements.

Business Park	Capital Improvement	Other Governmental Funds	Total Governmental Funds
\$ 312,004	\$ -	\$ 367,584	\$ 2,215,808
-	-	-	942
-	-	1,009	31,395
-	-	-	156,186
-	-	-	225
-	-	-	11,613
-	-	-	393
-	-	-	795
45,730	-	-	47,254
-	-	-	2,279
25,784	-	-	25,784
30,684	-	-	30,684
<u>\$ 414,202</u>	<u>\$ -</u>	<u>\$ 368,593</u>	<u>\$ 2,523,358</u>
\$ -	\$ -	\$ 26,912	\$ 109,353
-	-	-	3,260
-	-	-	20,544
-	-	47,254	47,254
-	-	74,166	180,411
-	-	-	156,186
25,784	-	-	25,784
-	-	-	256
-	-	-	28,285
-	-	-	15,000
76,414	-	-	76,414
-	-	51,145	51,145
-	-	-	55,078
-	-	-	90,860
-	-	-	181,032
-	-	-	100,980
312,004	-	-	312,004
-	-	302,483	302,483
-	-	(59,201)	947,440
<u>414,202</u>	<u>-</u>	<u>294,427</u>	<u>2,186,761</u>
<u>\$ 414,202</u>	<u>\$ -</u>	<u>\$ 368,593</u>	<u>\$ 2,523,358</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, 2014**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 2,186,761
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.		7,087,481
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflow of resources in the governmental funds.		156,186
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	\$ (220,000)	
Loans Payable	(350,000)	
Capital Leases	(263,467)	
Compensated Absences	(38,677)	
Other Postemployment Benefits	(133,112)	
Accrued Interest Payable	(12,615)	
	(1,017,871)	(1,017,871)
NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ 8,412,557

See accompanying Notes to Financial Statements.

CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014

	Major Funds	
	General Fund	Fire Department
REVENUES		
Taxes	\$ 1,433,766	\$ -
Special Assessments	720	-
Licenses and Permits	15,260	-
Intergovernmental	130,216	51,115
Charges for Services	120,987	166,205
Fines and Forfeits	19,125	-
Gifts and Contributions	141,258	-
Interest on Investments	19,832	2,271
Debt Reserve Revenues	-	2,279
Miscellaneous	42,558	7,385
Total Revenues	1,923,722	229,255
EXPENDITURES		
CURRENT		
General Government	474,287	-
Public Safety	677,393	198,022
Highways and Streets	362,959	-
Sanitation	14,276	-
Culture and Recreation	44,813	-
Economic Development	43,492	-
CAPITAL OUTLAY		
General Government	4,433	-
Public Safety	2,110	82,540
Highways and Streets	203,018	-
Culture and Recreation	104,195	-
DEBT SERVICE		
Principal	22,905	-
Interest	10,715	-
Total Expenditures	1,964,596	280,562
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(40,874)	(51,307)
OTHER FINANCING SOURCES (USES)		
Proceeds from Sale of Assets	7,081	5,300
Proceeds from Issuance of Equipment Certificates	-	-
Proceeds from Loans Payable	-	-
Total Other Financing Sources (Uses)	7,081	5,300
NET CHANGE IN FUND BALANCES	(33,793)	(46,007)
Fund Balance - Beginning of Year	1,384,636	173,296
FUND BALANCE - END OF YEAR	\$ 1,350,843	\$ 127,289

See accompanying Notes to Financial Statements.

Business Park	Capital Improvement	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 103,216	\$ 1,536,982
14,224	-	-	14,944
-	-	-	15,260
-	-	-	181,331
-	-	850	288,042
-	-	-	19,125
-	-	-	141,258
5,472	-	5,339	32,914
-	-	-	2,279
-	-	6	49,949
19,696	-	109,411	2,282,084
-	-	137	474,424
-	-	26	875,441
-	-	23,357	386,316
-	-	-	14,276
-	-	-	44,813
587	-	50,585	94,664
-	-	-	4,433
-	-	189,711	274,361
-	350,000	-	553,018
-	-	-	104,195
-	-	26,000	48,905
-	-	7,178	17,893
587	350,000	296,994	2,892,739
19,109	(350,000)	(187,583)	(610,655)
1,729	-	28,000	42,110
-	-	193,000	193,000
-	350,000	-	350,000
1,729	350,000	221,000	585,110
20,838	-	33,417	(25,545)
393,364	-	261,010	2,212,306
\$ 414,202	\$ -	\$ 294,427	\$ 2,186,761

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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, 2014**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (25,545)

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	\$ 997,103	
Current Year Depreciation	<u>(359,161)</u>	637,942

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. (33,997)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (13,927)

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: (543,000)

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	26,000	
Capital Leases	<u>22,905</u>	48,905

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	(10,586)	
Change in Compensated Absences	1,738	
Change in Other Postemployment Benefits	<u>(16,790)</u>	<u>(25,638)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 44,740

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	Water Fund	Sewer Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and Investments	\$ 561,505	\$ 899,692	\$ 1,461,197
Special Assessments			
Noncurrent	458	962	1,420
Accounts Receivable (Net)	47,769	82,428	130,197
Total Current Assets	<u>609,732</u>	<u>983,082</u>	<u>1,592,814</u>
NONCURRENT ASSETS			
Capital Assets			
Land	21,198	156,969	178,167
Building (Net)	17,443	51,132	68,575
Machinery, Vehicles, Furniture and Equipment (Net)	1,259,516	155,070	1,414,586
Infrastructure (Net)	87,442	251,255	338,697
Total Noncurrent Assets	<u>1,385,599</u>	<u>614,426</u>	<u>2,000,025</u>
Total Assets	1,995,331	1,597,508	3,592,839
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	33,704	67,428	101,132
Salaries Payable	472	472	944
Due to Other Governments	70	70	140
Accrued Interest Payable	10,467	-	10,467
Compensated Absences Payable	348	348	696
General Obligation Bonds Payable - Due Within One Year	55,000	-	55,000
Total Current Liabilities	<u>100,061</u>	<u>68,318</u>	<u>168,379</u>
NONCURRENT LIABILITIES			
General Obligation Bonds Payable - Due in More than One Year	1,092,110	-	1,092,110
Compensated Absences Payable - Due in More than One Year	943	943	1,886
Other Postemployment Benefits Payable - Due in More than One Year	7,785	7,785	15,570
Total Noncurrent Liabilities	<u>1,100,838</u>	<u>8,728</u>	<u>1,109,566</u>
Total Liabilities	<u>1,200,899</u>	<u>77,046</u>	<u>1,277,945</u>
NET POSITION			
Net Investment in Capital Assets	238,490	614,425	852,915
Unrestricted	555,942	906,037	1,461,979
Total Net Position	<u>\$ 794,432</u>	<u>\$ 1,520,462</u>	<u>\$ 2,314,894</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, 2014

	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 230,632	\$ 237,168	\$ 467,800
Miscellaneous Operating	6,688	503	7,191
Total Operating Revenues	237,320	237,671	474,991
OPERATING EXPENSES			
Personal Services	19,391	19,390	38,781
Professional Services	38,254	52,352	90,606
Other Services and Charges	7,146	2,558	9,704
Supplies	25,894	6,754	32,648
Repairs and Maintenance	11,801	8,323	20,124
Utilities	14,512	16,207	30,719
Insurance	2,709	6,559	9,268
Dues and Subscriptions	3,804	1,771	5,575
Depreciation	67,516	27,143	94,659
Total Operating Expenses	191,027	141,057	332,084
OPERATING INCOME (LOSS)	46,293	96,614	142,907
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	38	38	76
Special Assessment Charges	-	384	384
Interest Income	8,147	13,666	21,813
Rent	-	5,000	5,000
Interest Expense	(25,474)	-	(25,474)
Total Nonoperating Revenues (Expenses)	(17,289)	19,088	1,799
CHANGE IN NET POSITION	29,004	115,702	144,706
Net Position - Beginning of Year	765,428	1,404,760	2,170,188
NET POSITION - END OF YEAR	\$ 794,432	\$ 1,520,462	\$ 2,314,894

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 240,191	\$ 242,436	\$ 482,627
Payments to Suppliers	(106,716)	(97,467)	(204,183)
Payments to Employees	(18,711)	(18,711)	(37,422)
Net Cash Provided (Used) by Operating Activities	114,764	126,258	241,022
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental	38	38	76
Rent Deposits	-	5,000	5,000
Net Cash Provided (Used) by Noncapital Financing Activities	38	5,038	5,076
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Long-Term Debt	(55,000)	-	(55,000)
Interest Paid on Long-Term Debt	(25,735)	-	(25,735)
Special Assessments	218	97	315
Purchases of Capital Assets	(12,111)	(41,805)	(53,916)
Net Cash Provided (Used) by Capital and Related Financing Activities	(92,628)	(41,708)	(134,336)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings Received	8,147	13,666	21,813
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	30,321	103,254	133,575
Cash and Cash Equivalents - Beginning of Year	531,184	796,438	1,327,622
CASH AND CASH EQUIVALENTS - END OF YEAR			
	<u>\$ 561,505</u>	<u>\$ 899,692</u>	<u>\$ 1,461,197</u>
Reconciliation of Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 46,293	\$ 96,614	\$ 142,907
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	67,516	27,143	94,659
(Increase) Decrease in Accounts Receivable	2,871	4,765	7,636
Increase (Decrease) in Accounts Payable	(605)	1,078	473
Increase (Decrease) in Salaries Payable	85	85	170
Increase (Decrease) in Due to Other Governments	(1,991)	(4,021)	(6,012)
Increase (Decrease) in Compensated Absences Payable	59	58	117
Increase (Decrease) in Other Postemployment Benefits Payable	536	536	1,072
Total Adjustments	68,471	29,644	98,115
Net Cash Provided (Used) by Operating Activities	<u>\$ 114,764</u>	<u>\$ 126,258</u>	<u>\$ 241,022</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Amortization of Current Year Bond Premium	\$ 124	\$ -	\$ 124

See accompanying Notes to Financial Statements.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014**

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.

Capital Improvement Fund – The Capital Improvement Fund, a capital projects fund, is used to account for major capital improvements within the City, which are not related to business-type activities.

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, 2014**

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, 2014**

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, 2014, 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, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Capital Assets (Continued)

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

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

6. Compensated Absences

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

7. Other Postemployment Benefits

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

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds or loans payable using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Deferred Inflows of Resources

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

10. Fund Balance/Net Position

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

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Fund Balance/Net Position (Continued)

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire capital assets. Net position is reported as restricted in government-wide financial statements when there are limitations on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

E. Revenues, Expenditures, and Expenses

1. Revenues

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

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

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

Property Tax Collection Calendar

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

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

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

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

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

**CITY OF PEQUOT LAKES, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014**

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 2013 which was collected during the year ended December 31, 2014. Any adjustments or abatements to either the current, or any prior year, levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year end are classified as delinquent and not considered measurable and available and are fully offset by deferred revenue in the governmental fund financial statements. Delinquent taxes receivable represent the past six years of uncollected tax years. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

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

2. Expenditures

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

3. Expenses

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Expenditures in Excess of Appropriations

In the following funds, expenditures exceeded the appropriations during the year ended December 31, 2014:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 1,964,596	\$ 1,913,205	\$ 51,391
Special Revenue Funds			
Fire Fund	280,562	175,190	105,372

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, 2014**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Deficit Fund Balance

The TIF 1-13 Lonesome Cottage Special Revenue Fund and the 2014 Equipment Certificates Debt Service Fund have deficit fund balances as of December 31, 2014. The amount of the deficits are \$57,677 and \$1,524, respectively and are 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 Clerk-Treasurer for the purpose of increasing earning through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, 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, 2014, no City deposits were subject to custodial credit risk.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014 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	\$ 38,272	\$ 38,272	\$ -	\$ -	\$ -
US Treasury Notes	111,960	-	-	111,960	-
Federal National Mortgage Association Notes	51,233	-	51,233	-	-
Federal Home Loan Mortgage Corporation Notes	51,194	-	51,194	-	-
Federal Home Loan Mortgage Corporation Med Term Notes	32,651	-	-	32,651	-
Municipal Bonds	740,778	75,365	100,837	306,570	258,007
Total	<u>\$ 1,026,088</u>	<u>\$ 113,637</u>	<u>\$ 203,264</u>	<u>\$ 451,181</u>	<u>\$ 258,007</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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.

Type	Amount	Percentage
University Okla Revs Txbl Gen Health Sciences	\$ 52,140	5.08 %
Fishers In Econ Dev Revenue Txbl Fishers Station Proj	51,934	5.06
Salt Lake City Utah Redev Agy Txbl Performing Arts Ctr Proj	51,868	5.05
University of Colorado CO Enterprise Txbl Ser B	51,654	5.03
Grant County WA Public Utility District Txbl Ref Ser Z	51,447	5.01
Louisiana St Gas & Fuels Tax Second Lien Rev Ref Ser C-2	51,425	5.01
Monroe County Indl Dev Corp Rev Univ of Rochester Proj	51,298	5.00

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

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

At December 31, 2014, the City deposit and investment balances were as follows:

Cash and Investments - Governmental Funds	\$ 2,215,808
Petty Cash and Change Funds - Governmental Funds	942
Cash and Investments - Proprietary Funds	1,461,197
Total Cash & Cash Equivalents	<u>\$ 3,677,947</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, not Being				
Depreciated				
Land and Right of Way	\$ 1,524,241	\$ -	\$ 19,902	\$ 1,504,339
Construction in Progress	20,146	-	20,146	-
Total Capital Assets not Being				
Depreciated	1,544,387	-	40,048	1,504,339
Capital Assets Being				
Depreciated				
Buildings	1,536,861	-	-	1,536,861
Machinery, Furniture, and				
Equipment	1,946,682	712,428	94,884	2,564,226
Infrastructure	5,332,900	304,821	-	5,637,721
Total Capital Assets Being				
Depreciated	8,816,443	1,017,249	94,884	9,738,808
Less: Accumulated				
Depreciation for				
Buildings	481,290	54,682	-	535,972
Machinery, Furniture, and				
Equipment	1,375,517	121,447	80,789	1,416,175
Infrastructure	2,020,487	183,032	-	2,203,519
Total Accumulated Depreciation	3,877,294	359,161	80,789	4,155,666
Total Capital Assets,				
Depreciated, Net	4,939,149	658,088	14,095	5,583,142
Governmental Activities Capital				
Assets, Net	\$ 6,483,536	\$ 658,088	\$ 54,143	\$ 7,087,481

CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, not Being Depreciated				
Land	\$ 178,167	\$ -	\$ -	\$ 178,167
Capital Assets Being Depreciated				
Buildings	1,125,329	-	-	1,125,329
Machinery and Vehicles	3,125,927	19,962	-	3,145,889
Infrastructure	393,117	33,954	-	427,071
Total Capital Assets Being Depreciated	4,644,373	53,916	-	4,698,289
Less: Accumulated Depreciation for:				
Buildings	1,052,848	3,906	-	1,056,754
Machinery and Vehicles	1,653,806	77,497	-	1,731,303
Infrastructure	75,118	13,256	-	88,374
Total Accumulated Depreciation	2,781,772	94,659	-	2,876,431
Total Capital Assets, Depreciated, Net	1,862,601	(40,743)	-	1,821,858
Business-Type Activities Capital Assets, Net	\$ 2,040,768	\$ (40,743)	\$ -	\$ 2,000,025

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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	\$	62,495
Public Safety		69,911
Highways and Streets, Including Depreciation of Infrastructure Assets		209,300
Culture and Recreation		17,455
Total Depreciation Expense - Governmental Activities	<u>\$</u>	<u>359,161</u>
Business-Type Activity		
Water Fund	\$	67,516
Sewer Fund		27,143
Total Depreciation Expense - Business-Type Activities	<u>\$</u>	<u>94,659</u>

B. Interfund Receivables and Payables

Receivable Fund	Payable Fund	Amount
Business Park	TIF 1-13 Lonesome Cottage	\$ 45,730
General Fund	2014 Equipment Certificates	1,524
	Total Interfund Receivables and Payables	<u>\$ 47,254</u>

The above payable relates to a negative pooled cash balance.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014	Due Within One Year
Business-Type Activities						
Water Fund						
General Obligation Utility Refunding Bonds of 2012	2031	\$55,000 - \$85,000	0.6 - 3.1%	\$ 1,270,000	\$ 1,145,000	\$ 55,000
Plus: Unamortized Premium					2,110	-
Total Water Fund, Net					<u>\$ 1,147,110</u>	<u>\$ 55,000</u>
Governmental Activities						
Revenue Bonds						
Taxable Library Revenue Bonds Series 2009A	2014	\$4,670 - \$10,450	3.0%	\$ -	\$ -	\$ -
General Obligation Bonds						
Equipment Certificates, Series 2010A	2015	\$13,000- \$27,000	5.0%	\$ 115,000	\$ 27,000	\$ 27,000
Equipment Certificates, Series 2014A	2019	\$37,000- \$40,000	2.50	193,000	193,000	37,000
Total Governmental Activities General Obligation Bonds, Net				308,000	220,000	64,000
Loans						
USDA Community Facility Loan	2029	\$18,141- \$29,322	3.5%	350,000	350,000	18,141
Capital Leases						
Canon Copier	2018	\$9,866	14.67%	9,866	7,194	1,863
City Hall Building	2024	\$34,583	4.25%	1,097,442	256,273	22,162
Total Capital Leases				1,107,308	263,467	24,025
Total Governmental Activities Long-Term Debt				1,765,308	833,467	106,166
Total Long-Term Debt				<u>\$ 3,035,308</u>	<u>\$ 1,980,577</u>	<u>\$ 161,166</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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	\$ 53,000	\$ 193,000	\$ 26,000	\$ 220,000	\$ 64,000
Capital Leases	286,372	-	22,905	263,467	24,025
Loans Payable	-	350,000	-	350,000	18,141
Compensated Absences	40,415	88,644	90,382	38,677	17,833
Other Postemployment Benefits	116,322	17,285	495	133,112	-
Governmental Activities Long-Term Debt	<u>\$ 496,109</u>	<u>\$ 648,929</u>	<u>\$ 139,782</u>	<u>\$ 1,005,256</u>	<u>\$ 123,999</u>
Business-Type Activities:					
General Obligation Refunding Bonds	\$ 1,200,000	\$ -	\$ 55,000	\$ 1,145,000	\$ 55,000
Bond Premium	2,234	-	124	2,110	-
Compensated Absences	2,465	4,569	4,452	2,582	696
Other Postemployment Benefits	14,498	1,104	32	15,570	-
Business-Type Activities Long-Term Debt	<u>\$ 1,219,197</u>	<u>\$ 5,673</u>	<u>\$ 59,608</u>	<u>\$ 1,165,262</u>	<u>\$ 55,696</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, 2014**

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
2015	\$ 55,000	\$ 24,955	\$ 79,955
2016	60,000	24,520	84,520
2017	60,000	23,980	83,980
2018	60,000	23,320	83,320
2019	60,000	22,540	82,540
2020-2024	315,000	96,610	411,610
2025-2029	370,000	54,488	424,488
2030-2031	165,000	5,192	170,192
Total	<u>\$1,145,000</u>	<u>\$ 275,605</u>	<u>\$ 1,420,605</u>

Year Ending December 31,	Governmental Activities					
	Capital Leases			Loans		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 24,025	\$ 10,781	\$ 34,806	\$ 18,141	\$ 12,250	\$ 30,391
2016	25,220	9,586	34,806	18,776	11,615	30,391
2017	26,498	8,308	34,806	19,433	10,958	30,391
2018	25,666	7,044	32,710	20,113	10,278	30,391
2019	26,001	6,009	32,010	20,817	9,574	30,391
2020-2024	136,057	13,320	149,377	115,539	36,416	151,955
2025-2029	-	-	-	137,181	14,731	151,912
Total	<u>\$ 263,467</u>	<u>\$ 55,047</u>	<u>\$ 318,514</u>	<u>\$ 350,000</u>	<u>\$ 105,822</u>	<u>\$ 455,822</u>

Year Ending December 31,	Governmental Activities		
	Equipment Certificates		
	Principal	Interest	Total
2015	\$ 64,000	\$ 5,038	\$ 69,038
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>\$ 220,000</u>	<u>\$ 12,919</u>	<u>\$ 232,919</u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 and \$9,866 for the Canon copier asset. There was accumulated depreciation of \$396,075 on the City Hall building and \$3,289 on the copier for 2014.

6. Operating Leases

The City leases a postage machine under an operating lease. Total cost for the lease was \$1,923 for the year ended December 31, 2014. The future minimum lease obligation was \$1,602 as of December 31, 2014.

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, 2014**

NOTE 5 PENSION PLANS

A. Public Employees Retirement Association

Plan Description

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

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

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

**CITY OF PEQUOT LAKES, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014**

NOTE 5 PENSION PLANS (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2014. PEPFF members are required to contribute 9.6 percent of their annual covered salary in 2014. The City of Pequot Lakes is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERS members, 7.25 percent for Coordinated Plan GERS members and 15.3 percent for PEPFF members. The City's contributions to the General Employees Retirement Fund and the Public Employees Police and Fire Fund for the years ending December 31, 2014, 2013, and 2012 were:

	General Employees Retirement Fund	Public Employees Police and Fire Fund
2014	\$ 25,559	\$ 47,017
2013	23,009	42,714
2012	21,473	44,149

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

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 PENSION PLANS (CONTINUED)

B. Defined Contribution Plan

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

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

The employer's contribution amounts for the years ending December 31, 2014, 2013, and 2012 were \$410, \$411, and \$449, respectively, equal to the contractually required contributions for each year as set by state statute.

C. Pequot Lakes Fire Department Relief Association

Plan Description

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

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 PENSION PLANS (CONTINUED)

C. Pequot Lakes Fire Department Relief Association (Continued)

Funding Policy

Minnesota Statutes specify minimum contributions that may be required from the City on an annual basis. These minimum contributions are determined based on the amount required to meet the normal cost plus amortizing any prior year's service cost over a ten year period. A contribution was not required from the City for the year ended December 31, 2014. The Pequot Lakes Fire Department Relief Association also receives funding from the State of Minnesota as a two percent fire premium tax. The City receives the contributions and is required by statute to pass this through as payment to the Fire Relief Association. Investment earnings also add to the resources available for benefits.

Annual Pension Cost and Net Pension Obligation

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

Annual Required Contribution	\$	-
Interest on Net Pension Obligation		-
Adjustment to Annual Required Contribution		47,390
Annual Pension Cost		<u>47,390</u>
Less Contribution Made		<u>(47,390)</u>
Increase (Decrease) in Net Pension Obligation		-
Net Pension Obligation - Beginning of Year		-
Net Pension Obligation - End of Year	<u>\$</u>	<u>-</u>

The annual required contribution for the current year was determined as part of December 31, 2013, simplified statutory valuation procedure using the entry age actuarial cost method. The actuarial assumptions included (a) 5 percent investment rate of return and (b) age and service retirement was assumed to occur at age 50. Pension benefit obligations on an actuarial basis are not calculated for individual volunteer fire relief associations since state statutes permit alternate calculation of required reserves based on overall actuarial assumptions.

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 PENSION PLANS (CONTINUED)

C. Pequot Lakes Fire Department Relief Association (Continued)

The City's net pension obligation for the Fire Relief Association (Association) for the years ended December 31, 2014, 2013, and 2012 are as follows:

December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	\$ 47,390	100.0 %	N/A
2013	48,080	100.0	N/A
2012	35,012	100.0	N/A

Contributions Required and Made

The City makes contributions to the Association annually in an amount equal to the fire aid received from the State of Minnesota as required by state statutes. The City is required to make additional contributions to the Association in the following year if the following years anticipated administrative expenses plus the anticipated increase in the required reserves plus amortization of the original unfunded accrued liability exceeds the anticipated revenues. The City was not required to make a contribution in excess of fire aid for 2014, 2013, or 2012.

Funding Progress

As of December 31, 2013 (the most recent available information), the plan was overfunded by \$262,672. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2013 (the most recent information available) and for the year then ended, the Association held no securities issued by the City or other related-parties.

D. OPEB Disclosure

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

**CITY OF PEQUOT LAKES, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014**

NOTE 5 PENSION PLANS (CONTINUED)

D. OPEB Disclosure (Continued)

1. Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of fund that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for 2014, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution	\$ 20,673
Interest on Net OPEB Obligation	5,887
Adjustment to ARC	<u>(8,172)</u>
Annual OPEB Cost	18,388
Contributions During the Year	<u>(526)</u>
Increase in Net OPEB Obligation	17,862
Net OPEB - Beginning of Year	<u>130,820</u>
Net OPEB - End of Year	<u><u>\$ 148,682</u></u>
Governmental Activities	\$ 133,112
Business-Type Activities	<u>15,570</u>
Total OPEB Payable	<u><u>\$ 148,682</u></u>

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 PENSION PLANS (CONTINUED)

D. OPEB Disclosure (Continued)

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for December 31, 2014 and 2013 and 2012 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2014	\$ 18,388	\$ 526	2.86 %	\$ 148,682
December 31, 2013	18,789	445	2.37	130,820
December 31, 2012	19,174	157	0.82	112,476

2. Funding Status and Funding Progress

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

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

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

3. Actuarial Methods and Assumptions

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

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

**CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 PENSION PLANS (CONTINUED)

D. OPEB Disclosure (Continued)

3. Actuarial Methods and Assumptions (Continued)

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

NOTE 6 RELATED-ORGANIZATION

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

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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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,436,205	\$ 1,436,205	\$ 1,433,766	\$ (2,439)
Special Assessments	350	350	720	370
Licenses and Permits	15,450	15,450	15,260	(190)
Intergovernmental	122,260	122,260	130,216	7,956
Charges for Services	118,520	118,520	120,987	2,467
Fines and Forfeits	14,500	14,500	19,125	4,625
Gifts and Contributions	16,000	16,000	141,258	125,258
Investment Earnings	7,000	7,000	19,832	12,832
Miscellaneous	7,300	7,300	42,558	35,258
Total Revenues	1,737,585	1,737,585	1,923,722	186,137
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Council	27,310	27,310	24,734	2,576
Clerk	205,280	205,280	209,709	(4,429)
Planning and Zoning	92,260	92,260	96,512	(4,252)
Buildings and Plant	37,190	37,190	39,052	(1,862)
Other General Government	82,640	82,640	104,280	(21,640)
Total General Government	444,680	444,680	474,287	(29,607)
PUBLIC SAFETY				
Police	578,050	578,050	600,294	(22,244)
Fire	73,400	73,400	76,693	(3,293)
Civil Defense	1,200	1,200	406	794
Total Public Safety	652,650	652,650	677,393	(24,743)
HIGHWAYS AND STREETS				
Public Works	288,410	288,410	342,373	(53,963)
Street Lighting	16,570	16,570	17,458	(888)
Traffic Signs and Signals	4,940	4,940	3,128	1,812
Total Highways and Streets	309,920	309,920	362,959	(53,039)
SANITATION				
Recycling	12,000	12,000	14,276	(2,276)
CULTURE AND RECREATION				
Parks	20,050	20,050	22,555	(2,505)
Regional Library	8,930	8,930	22,258	(13,328)
Total Culture and Recreation	28,980	28,980	44,813	(15,833)

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, 2014**

	<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	\$ 44,255	\$ 44,255	\$ 43,492	\$ 763
CAPITAL OUTLAY				
General Government	1,690	1,690	4,433	(2,743)
Public Safety	6,790	6,790	2,110	4,680
Highways and Streets	310,720	310,720	203,018	107,702
Culture and Recreation	28,500	28,500	104,195	(75,695)
Total Capital Outlay	<u>347,700</u>	<u>347,700</u>	<u>313,756</u>	<u>33,944</u>
DEBT SERVICE				
Principal Retirement	62,300	62,300	22,905	39,395
Interest	10,720	10,720	10,715	5
Total Debt Service	<u>73,020</u>	<u>73,020</u>	<u>33,620</u>	<u>39,400</u>
Total Expenditures	<u>1,913,205</u>	<u>1,913,205</u>	<u>1,964,596</u>	<u>(51,391)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(175,620)	(175,620)	(40,874)	134,746
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Assets	8,000	8,000	7,081	(919)
NET CHANGE IN FUND BALANCE	<u>\$ (167,620)</u>	<u>\$ (167,620)</u>	(33,793)	<u>\$ 133,827</u>
Fund Balance - Beginning of Year			<u>1,384,636</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,350,843</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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 51,115	\$ 51,115
Charges for Services	169,000	169,000	166,205	(2,795)
Investments Earnings	600	600	2,271	1,671
Debt Reserve Revenues	-	-	2,279	2,279
Miscellaneous	5,900	5,900	7,385	1,485
Total Revenues	<u>175,500</u>	<u>175,500</u>	<u>229,255</u>	<u>53,755</u>
EXPENDITURES				
CURRENT				
Public Safety				
Fire	124,470	124,470	198,022	(73,552)
CAPITAL OUTLAY				
Public Safety	20,320	20,320	82,540	(62,220)
DEBT SERVICE				
Principal Retirement	18,400	18,400	-	18,400
Interest	12,000	12,000	-	12,000
Total Debt Service	<u>30,400</u>	<u>30,400</u>	<u>-</u>	<u>30,400</u>
Total Expenditures	<u>175,190</u>	<u>175,190</u>	<u>280,562</u>	<u>(105,372)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	310	310	(51,307)	(51,617)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Assets	-	-	5,300	5,300
NET CHANGE IN FUND BALANCE	<u>\$ 310</u>	<u>\$ 310</u>	(46,007)	<u>\$ (46,317)</u>
Fund Balance - Beginning of Year			<u>173,296</u>	
FUND BALANCE - END OF YEAR			<u>\$ 127,289</u>	

**CITY OF PEQUOT LAKES, MINNESOTA
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2014**

I. BUDGETARY INFORMATION

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

- a. Prior to September 1, the City Clerk-Treasurer submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. The City Council adopts the proposed budget as amended and adjusted by the Council and certifies the proposed property tax levy to the County Auditor according to *Minnesota Statutes*.
- b. Public hearings are conducted in the Council's chambers.
- c. On or before December 28, the final budget is legally enacted by Council resolution and the final property tax levy certified to the County Auditor.
- d. Management is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are as originally adopted or amended by the City Council.
- e. The City has legally adopted budgets for the general fund and the fire fund special revenue 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, 2014:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 1,964,596	\$ 1,913,205	\$ 51,391
Special Revenue Funds			
Fire Fund	280,562	175,190	105,372

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
PEQUOT LAKES FIREMAN'S RELIEF ASSOCIATION
DECEMBER 31, 2014**

Fiscal Year Ending	Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Benefit Per Year of Service
12/31/2013	\$ 1,308,978	\$ 1,046,306	\$ (262,672)	125.1 %	\$ 3,500
12/31/2012	1,169,843	1,013,012	(156,831)	115.5	3,100
12/31/2011	1,030,654	880,662	(149,992)	117.0	2,900
12/31/2010	949,834	817,762	(132,072)	116.2	2,900
12/31/2009	831,439	773,518	(57,921)	107.5	2,900
12/31/2008	734,308	725,088	(9,220)	101.3	2,900

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

The December 31, 2014 report is not yet available.

**CITY OF PEQUOT LAKES, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS
 OTHER POSTEMPLOYMENT BENEFITS
 DECEMBER 31, 2014**

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

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SUPPLEMENTARY INFORMATION

**CITY OF PEQUOT LAKES, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	Cemetery Perpetual Care	TIF 1-7 Babinsky	TIF 1-9 Lime Greenery	TIF 1-13 Lonesome Cottage
ASSETS				
Cash and Pooled Investments	\$ 58,775	\$ 25,417	\$ 2,957	\$ -
Taxes Receivable				
Current	-	-	-	-
Total Assets	<u>\$ 58,775</u>	<u>\$ 25,417</u>	<u>\$ 2,957</u>	<u>\$ -</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ 9,739	\$ 1,957	\$ 11,947
Due to Other Funds	-	-	-	45,730
Total Liabilities	<u>-</u>	<u>9,739</u>	<u>1,957</u>	<u>57,677</u>
 FUND BALANCES				
Restricted for Economic Development	-	15,678	1,000	-
Restricted for Debt Repayment	-	-	-	-
Committed for Cemetery Perpetual Care	58,775	-	-	-
Committed for Highway 371 Project	-	-	-	-
Unassigned	-	-	-	(57,677)
Total Fund Balances (Deficits)	<u>58,775</u>	<u>15,678</u>	<u>1,000</u>	<u>(57,677)</u>
 Total Liabilities and Fund Balances	 <u>\$ 58,775</u>	 <u>\$ 25,417</u>	 <u>\$ 2,957</u>	 <u>\$ -</u>

Highway 371 Project	Total Nonmajor Special Revenue Funds	2014 Equipment Certificates	2010 Equipment Certificates	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 246,529	\$ 333,678	\$ -	\$ 33,906	\$ 33,906	\$ 367,584
448	448	-	561	561	1,009
<u>\$ 246,977</u>	<u>\$ 334,126</u>	<u>\$ -</u>	<u>\$ 34,467</u>	<u>\$ 34,467</u>	<u>\$ 368,593</u>
\$ 3,269	\$ 26,912	\$ -	\$ -	\$ -	\$ 26,912
-	45,730	1,524	-	1,524	47,254
<u>3,269</u>	<u>72,642</u>	<u>1,524</u>	<u>-</u>	<u>1,524</u>	<u>74,166</u>
-	16,678	-	-	-	16,678
-	-	-	34,467	34,467	34,467
-	58,775	-	-	-	58,775
243,708	243,708	-	-	-	243,708
-	(57,677)	(1,524)	-	(1,524)	(59,201)
<u>243,708</u>	<u>261,484</u>	<u>(1,524)</u>	<u>34,467</u>	<u>32,943</u>	<u>294,427</u>
<u>\$ 246,977</u>	<u>\$ 334,126</u>	<u>\$ -</u>	<u>\$ 34,467</u>	<u>\$ 34,467</u>	<u>\$ 368,593</u>

CITY OF PEQUOT LAKES, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014

	Cemetery Perpetual Care	TIF 1-7 Babinsky	TIF 1-9 Lime Greenery	TIF 1-13 Lonesome Cottage
REVENUES				
Taxes	\$ -	\$ 21,555	\$ 4,326	\$ 25,694
Charges for Services	850	-	-	-
Interest on Investments	590	262	12	-
Miscellaneous	6	-	-	-
Total Revenues	1,446	21,817	4,338	25,694
EXPENDITURES				
CURRENT				
General Government	137	-	-	-
Public Safety	-	-	-	-
Highways and Streets	-	-	-	-
Economic Development	-	22,914	4,146	23,525
CAPITAL OUTLAY				
Public Safety	-	-	-	-
DEBT SERVICE				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	137	22,914	4,146	23,525
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,309	(1,097)	192	2,169
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Assets	28,000	-	-	-
Proceeds from Issuance of Equipment Certificates	-	-	-	-
Total Other Financing Sources (Uses)	28,000	-	-	-
NET CHANGE IN FUND BALANCES	29,309	(1,097)	192	2,169
Fund Balance (Deficit) - Beginning of Year	29,466	16,775	808	(59,846)
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 58,775</u>	<u>\$ 15,678</u>	<u>\$ 1,000</u>	<u>\$ (57,677)</u>

Highway 371 Project	Total Nonmajor Special Revenue Funds	2014 Equipment Certificates	2010 Equipment Certificates	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 22,400	\$ 73,975	\$ -	\$ 29,241	\$ 29,241	\$ 103,216
-	850	-	-	-	850
3,941	4,805	365	169	534	5,339
-	6	-	-	-	6
<u>26,341</u>	<u>79,636</u>	<u>365</u>	<u>29,410</u>	<u>29,775</u>	<u>109,411</u>
-	137	-	-	-	137
-	-	-	26	26	26
23,357	23,357	-	-	-	23,357
-	50,585	-	-	-	50,585
-	-	189,711	-	189,711	189,711
-	-	-	26,000	26,000	26,000
-	-	5,178	2,000	7,178	7,178
<u>23,357</u>	<u>74,079</u>	<u>194,889</u>	<u>28,026</u>	<u>222,915</u>	<u>296,994</u>
2,984	5,557	(194,524)	1,384	(193,140)	(187,583)
-	28,000	-	-	-	28,000
-	-	193,000	-	193,000	193,000
-	28,000	193,000	-	193,000	221,000
2,984	33,557	(1,524)	1,384	(140)	33,417
240,724	227,927	-	33,083	33,083	261,010
<u>\$ 243,708</u>	<u>\$ 261,484</u>	<u>\$ (1,524)</u>	<u>\$ 34,467</u>	<u>\$ 32,943</u>	<u>\$ 294,427</u>

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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, 2014, 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 6, 2015.

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 2014-001 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 2014-002 as described in the accompanying Schedule of Findings and Recommendations to be a significant deficiency.

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 6, 2015

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**CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2014**

MATERIAL WEAKNESS (FINANCIAL REPORTING)

2014-001 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, 2014**

SIGNIFICANT DEFICIENCY

2014-002 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, 2014**

OTHER ITEM FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

None Noted.

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated April 6, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 6, 2015

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