

Annual Financial Report

City of Madison Lake
Madison Lake, Minnesota

For the Year Ended
December 31, 2014

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CITY OF MADISON LAKE, MINNESOTA
 ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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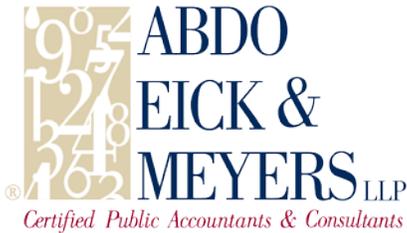
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FINANCIAL SECTION

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Madison Lake, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

The City's 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2013 financial statements and, in our report dated March 18, 2014, we expressed unmodified opinions on the respective proprietary fund financial statements. 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial statement presentation.

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, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 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.

Other 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 introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules 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 combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 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 the 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.

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
May 21, 2015

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Management's Discussion and Analysis

As management of the City of Madison Lake, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2014.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$12,638,216 (net position). Of this amount, \$2,902,565 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$5,184,952 as compared to an increase of \$63,453 in the previous year. The governmental activities increased by \$5,331,527 and the business type activities decreased by \$146,575. The majority of the governmental activity increase is attributable to the assessments that were levied for the annexation project. The decrease in the business type activities is due to the issuance costs of the 2014A bond and an increase in interest and fees expense. These expenses were accrued in the current year because the reconstruction was done in 2014.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,858,790, an increase of \$4,049,950 in comparison with the prior year. The majority of the governmental activity increase is attributable to all the assessments that were prepaid for the annexation project and the issuance of bonds. Approximately 31.7 percent of this total amount, \$1,854,356, is available for spending at the City's discretion, and the remaining 68.3 percent has been restricted or committed for specific purposes.
- The City owes the County \$473,629 for the CSAH 26 project, which the City will be issuing a bond for in 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 reflects how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

Figure 1
Required Components of the
City's Annual Financial Report

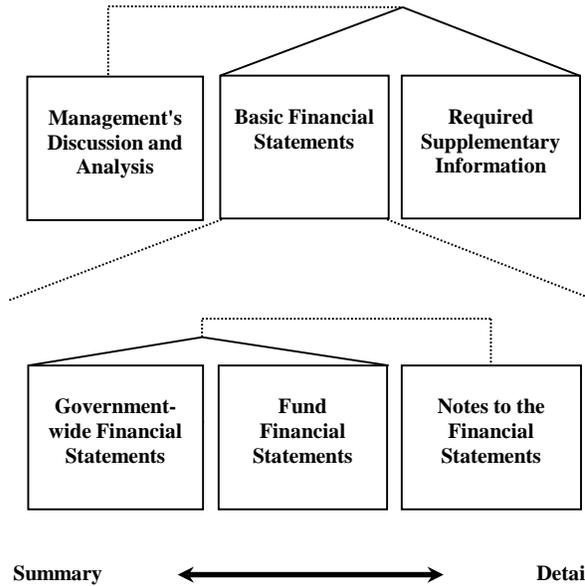


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

Figure 2
Major Features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • 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/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come 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 deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City’s assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highways, composting, economic development, culture and recreation, and miscellaneous. The business-type activities of the City include water utility, sewer utility, and refuse operations.

The government-wide financial statements can be found starting on page 29 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 14 individual governmental funds, 5 of which are Debt Service funds, which are reported as one fund for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Debt Service fund and the 2014 Construction fund all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund and Fire special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found starting on page 34 of this report.

Proprietary funds. The City maintains one of proprietary fund. *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 utility, sewer utility and refuse operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found starting on page 42 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 49 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found starting on page 72 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$12,638,216 at the close of the most recent fiscal year.

A significant portion of the City's net position (27.3 percent) reflects its investment in capital assets (e.g., land, land improvements, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Madison Lake's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Current and other assets	\$ 9,895,502	\$ 2,316,100	\$ 7,579,402	\$ 2,649,457	\$ 2,422,788	\$ 226,669
Capital assets	5,353,375	2,507,411	2,845,964	4,558,487	3,621,036	937,451
Total assets	15,248,877	4,823,511	10,425,366	7,207,944	6,043,824	1,164,120
Long-term liabilities outstanding	5,044,534	232,258	4,812,276	3,784,737	2,811,704	973,033
Other liabilities	604,410	322,847	281,563	384,924	47,262	337,662
Total liabilities	5,648,944	555,105	5,093,839	4,169,661	2,858,966	1,310,695
Net position						
Net investment in capital assets	1,356,681	2,282,411	(925,730)	2,094,955	1,914,490	180,465
Restricted	6,231,112	632,475	5,598,637	52,903	49,459	3,444
Unrestricted	2,012,140	1,353,520	658,620	890,425	1,220,909	(330,484)
Total net position	\$ 9,599,933	\$ 4,268,406	\$ 5,331,527	\$ 3,038,283	\$ 3,184,858	\$ (146,575)

An additional portion of the City's net position (49.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (23.0 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities increased the City's net position by \$5,331,527. Key elements of this change can be seen in the following tables.

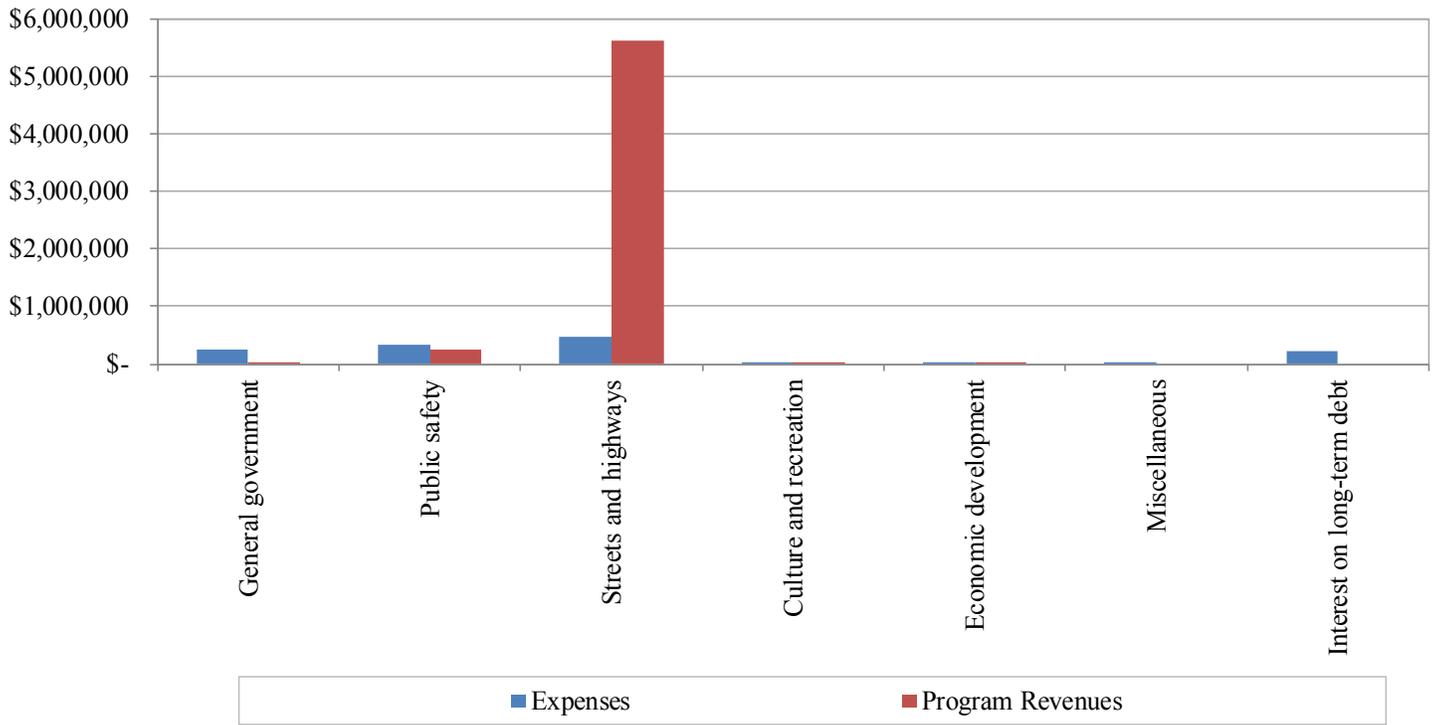
City of Madison Lake's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 189,579	\$ 163,420	\$ 26,159	\$ 660,642	\$ 624,747	\$ 35,895
Operating grants and contributions	57,365	36,099	21,266	-	-	-
Capital grants and contributions	5,674,626	42,377	5,632,249	41,017	40,990	27
General revenues						
Property taxes/tax increments	479,172	452,610	26,562	-	-	-
Other taxes	16,235	10,895	5,340	-	-	-
Grants and contributions not restricted to specific programs	153,144	119,406	33,738	-	-	-
Investment earnings	7,710	1,822	5,888	2,038	727	1,311
Gain on sale of capital assets	-	10,000	(10,000)	-	-	-
Other	4,219	6,830	(2,611)	-	-	-
Total revenues	<u>6,582,050</u>	<u>843,459</u>	<u>5,738,591</u>	<u>703,697</u>	<u>666,464</u>	<u>37,233</u>
Expenses						
General government	238,115	179,367	58,748	-	-	-
Public safety	337,908	280,363	57,545	-	-	-
Streets and highways	472,377	243,935	228,442	-	-	-
Culture and recreation	21,121	17,871	3,250	-	-	-
Economic development	21,572	6,782	14,790	-	-	-
Miscellaneous	16,843	811	16,032	-	-	-
Interest on long-term debt	221,404	11,132	210,272	-	-	-
Water utility	-	-	-	243,896	236,138	7,758
Sewer utility	-	-	-	456,689	405,179	51,510
Refuse	-	-	-	70,870	64,892	5,978
Total expenses	<u>1,329,340</u>	<u>740,261</u>	<u>589,079</u>	<u>771,455</u>	<u>706,209</u>	<u>65,246</u>
Increase (decrease) in net position before transfers	5,252,710	103,198	5,149,512	(67,758)	(39,745)	(28,013)
Transfers	<u>78,817</u>	<u>24,656</u>	<u>54,161</u>	<u>(78,817)</u>	<u>(24,656)</u>	<u>(54,161)</u>
Change in net position	5,331,527	127,854	5,203,673	(146,575)	(64,401)	(82,174)
Net position - January 1	<u>4,268,406</u>	<u>4,140,552</u>	<u>127,854</u>	<u>3,184,858</u>	<u>3,249,259</u>	<u>(64,401)</u>
Net position - December 31	<u>\$ 9,599,933</u>	<u>\$ 4,268,406</u>	<u>\$ 5,331,527</u>	<u>\$ 3,038,283</u>	<u>\$ 3,184,858</u>	<u>\$ (146,575)</u>

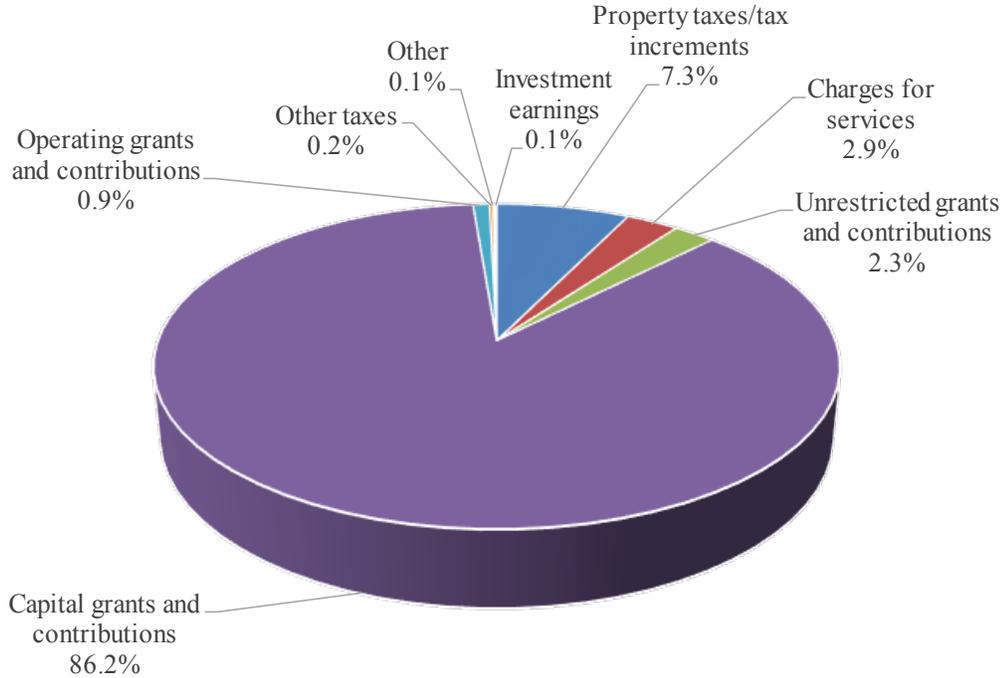
Property tax levies increased by \$22,274 (5.0 percent) during the year.

The following graphs depict various governmental activities and show the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities

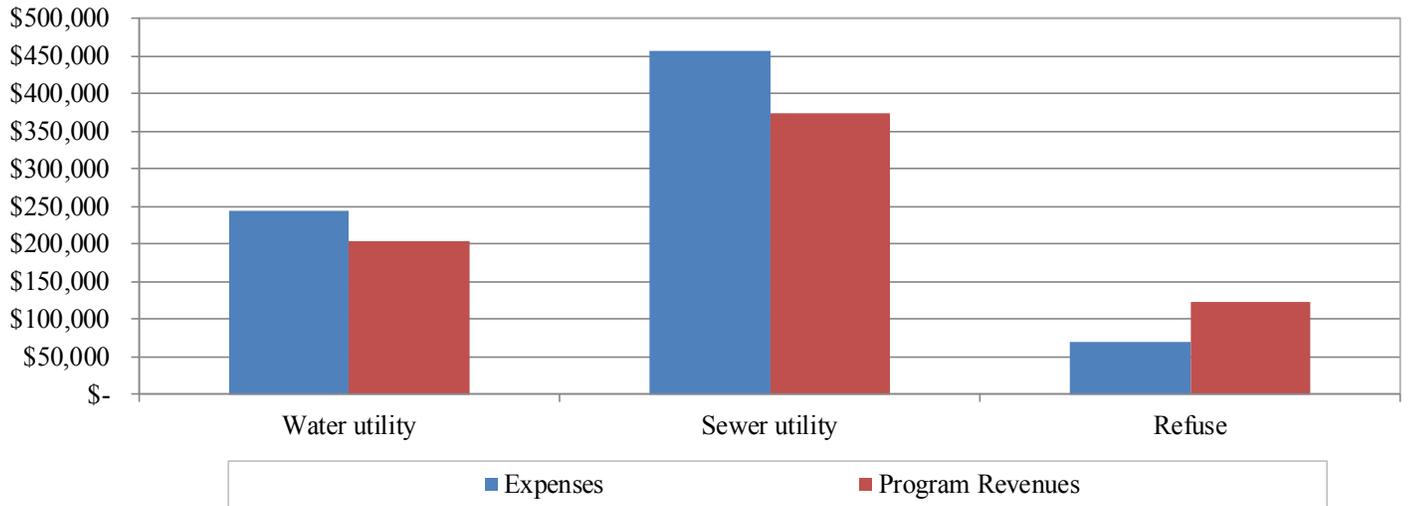


Revenues by Source - Governmental Activities

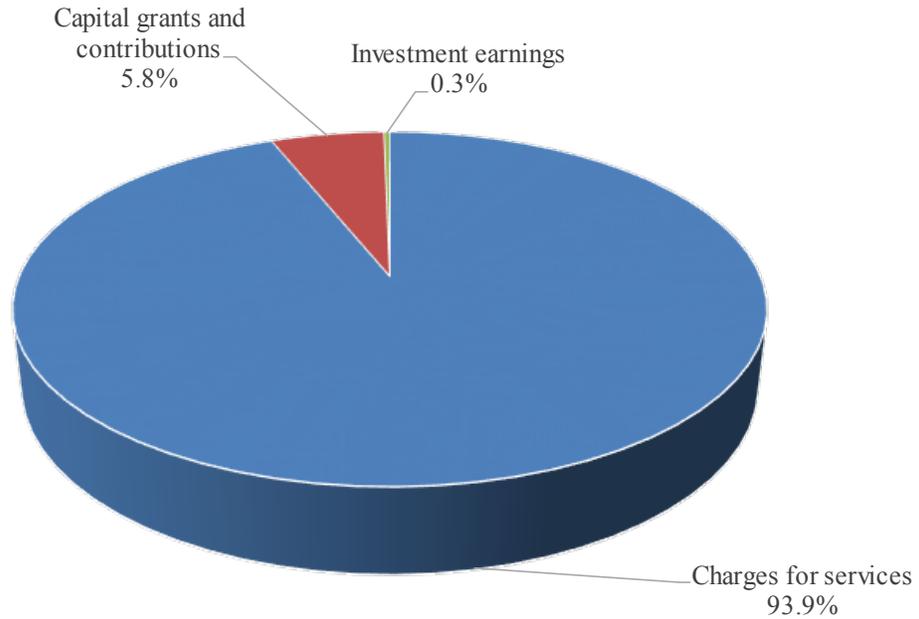


Business-type activities. Business-type activities decreased the City's net position by \$146,575.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,858,790, an increase of \$4,049,950 in comparison with the prior year. Approximately 6.1 percent of this total amount (\$356,980) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) restricted (\$3,888,055), 2) committed (\$116,379), or 3) assigned (\$1,497,376) for the purposes described in the fund balance section of each balance sheet.

The *General fund* is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$956,595. As a measure of the General fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Total fund balance represented 171.2 percent of fund expenditures, while unassigned fund balance represents 104.3 percent of fund expenditures.

The fund balance of the City's *General fund* increased by \$160,815 during the current fiscal year. The key factor in this increase was due to an increase in taxes of \$28,013, an increase in licenses and permits of \$28,858 and an increase in local government aid of \$33,738.

The *Debt Service fund* has a total fund balance of \$2,402,296, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the Debt Service fund was \$2,302,034. The key factor of this increase was due to the prepayment of assessments for the annexation and CSAH 26 Reconstruction Project.

The *2014 Construction fund* increased by \$1,673,701 during the current fiscal year. The key factor in this increase was due to the issuance of the 2014A and B G.O. Improvement Bonds.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$890,425. The total decrease in net position for the funds was \$146,575. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. The final budget called for a break-even year. Revenues exceeded expectations by \$96,389, and expenditures were under budget by \$55,222.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2014, amounts to \$9,911,862 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total change in the City's investment in capital assets for the current fiscal year was a 61.7 percent increase (a 113.5 percent increase for governmental activities and a 25.9 percent increase for business-type activities).

- The total costs in 2014 for the 2014 construction annexation project were \$3,875,862.34.

Additional information on the City's capital assets can be found in Note 3D starting on page 59 of this report.

City of Madison Lake's Capital Assets (net of depreciation)

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Land	\$ 405,357	\$ 466,218	\$ (60,861)	\$ 47,313	\$ 47,313	\$ -
Land improvements	23,517	26,020	(2,503)	-	-	-
Buildings	193,038	214,064	(21,026)	-	-	-
Infrastructure	865,875	927,782	(61,907)	3,603,299	3,555,435	47,864
Machinery and equipment	196,377	239,389	(43,012)	21,700	543	21,157
Construction in progress	3,669,211	633,938	3,035,273	886,175	17,745	868,430
Total	\$ 5,353,375	\$ 2,507,411	\$ 2,845,964	\$ 4,558,487	\$ 3,621,036	\$ 937,451

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$7,712,688. Of this amount, \$4,981,306 is special assessment debt and \$2,731,382 is revenue debt. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Madison Lake's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
G.O. improvement bonds	\$ 4,981,306	\$ 225,000	\$ 4,756,306	\$ -	\$ -	\$ -
General obligation revenue bonds	-	-	-	2,731,382	1,706,546	1,024,836
Loans payable	-	-	-	1,040,746	1,105,158	(64,412)
Total	\$ 4,981,306	\$ 225,000	\$ 4,756,306	\$ 3,772,128	\$ 2,811,704	\$ 960,424

The City's total debt increased by \$5,716,730, or 188.3 percent during the current fiscal year. The key factor of this increase was due to the City issuing two new bonds during the year totaling \$5,975,000.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$5,347,726, which is in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3F starting on page 62 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Blue Earth County is currently 2.7 percent, which is a decrease from a rate of 3.6 percent a year ago. This compares favorably to the State's average unemployment rate of 3.6 percent and the national average rate of 5.4 percent.

- Property valuations within the City remain strong and growing.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2015 fiscal year.

Property taxes will increase in 2015 by approximately 5.3 percent. The tax increase will provide an additional \$3,592 for debt service and \$24,801 for operations.

Water, sewer and refuse utility rates will remain the same in 2015.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator/Clerk, City of Madison Lake, 525 Main Street, Madison Lake, Minnesota 56063.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 6,292,189	\$ 1,486,828	\$ 7,779,017
Receivables			
Delinquent taxes	7,518	-	7,518
Accounts	12,659	82,027	94,686
Notes	61,337	-	61,337
Special assessments	3,498,088	35,302	3,533,390
Intergovernmental	23,711	16,094	39,805
Intangibles - sewer hookup rights	-	1,029,206	1,029,206
Capital assets			
Capital assets not being depreciated	4,074,568	933,488	5,008,056
Capital assets net of accumulated depreciation	1,278,807	3,624,999	4,903,806
TOTAL ASSETS	15,248,877	7,207,944	22,456,821
LIABILITIES			
Accounts payable	297,926	73,368	371,294
Due to other governments	211,650	272,260	483,910
Accrued interest payable	73,304	35,744	109,048
Accrued salaries payable	21,530	-	21,530
Customer deposits payable	-	3,552	3,552
Noncurrent liabilities			
Due within one year	83,725	185,706	269,431
Due in more than one year	4,960,809	3,599,031	8,559,840
TOTAL LIABILITIES	5,648,944	4,169,661	9,818,605
NET POSITION			
Net investment in capital assets	1,356,681	2,094,955	3,451,636
Restricted for			
Debt service	5,784,468	-	5,784,468
Infrastructure	-	52,903	52,903
Park land dedication	35,547	-	35,547
Economic development	409,937	-	409,937
Community service	1,160	-	1,160
Unrestricted	2,012,140	890,425	2,902,565
TOTAL NET POSITION	\$ 9,599,933	\$ 3,038,283	\$ 12,638,216

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 238,115	\$ 23,686	\$ -	\$ -
Public safety	337,908	149,547	34,856	56,145
Streets and highways	472,377	15,416	600	5,618,481
Culture and recreation	21,121	-	21,909	-
Economic development	21,572	930	-	-
Miscellaneous	16,843	-	-	-
Interest on long-term debt	221,404	-	-	-
Total governmental activities	1,329,340	189,579	57,365	5,674,626
Business-type activities				
Water utility	243,896	204,524	-	-
Sewer utility	456,689	333,697	-	41,017
Refuse	70,870	122,421	-	-
Total business-type activities	771,455	660,642	-	41,017
Total	\$ 2,100,795	\$ 850,221	\$ 57,365	\$ 5,715,643

General revenues

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Gambling taxes
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Other revenues

Transfers

Total general revenues and transfers

Change in net position

Net position, January 1

Net position, December 31

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (214,429)		\$ (214,429)
(97,360)		(97,360)
5,162,120		5,162,120
788		788
(20,642)		(20,642)
(16,843)		(16,843)
(221,404)		(221,404)
<u>4,592,230</u>		<u>4,592,230</u>
-	\$ (39,372)	(39,372)
-	(81,975)	(81,975)
-	<u>51,551</u>	<u>51,551</u>
-	<u>(69,796)</u>	<u>(69,796)</u>
<u>4,592,230</u>	<u>(69,796)</u>	<u>4,522,434</u>
400,211	-	400,211
78,961	-	78,961
2,925	-	2,925
13,310	-	13,310
153,144	-	153,144
7,710	2,038	9,748
4,219	-	4,219
78,817	<u>(78,817)</u>	<u>-</u>
<u>739,297</u>	<u>(76,779)</u>	<u>662,518</u>
5,331,527	(146,575)	5,184,952
<u>4,268,406</u>	<u>3,184,858</u>	<u>7,453,264</u>
<u>\$ 9,599,933</u>	<u>\$ 3,038,283</u>	<u>\$ 12,638,216</u>

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

CITY OF MADISON LAKE, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2014

	General	Debt Service
ASSETS		
Cash and temporary investments	\$ 983,257	\$ 2,397,757
Receivables		
Loans	-	-
Delinquent taxes	7,518	-
Accounts	2,824	-
Special assessments	-	3,455,476
Intergovernmental	19,172	4,539
	<u>\$ 1,012,771</u>	<u>\$ 5,857,772</u>
LIABILITIES		
Accounts payable	\$ 23,877	\$ -
Due to other governments	3,251	-
Accrued salaries payable	21,530	-
	<u>48,658</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	7,518	-
Unavailable revenue - special assessments	-	3,455,476
	<u>7,518</u>	<u>3,455,476</u>
FUND BALANCES		
Restricted for		
Debt service	-	2,402,296
Capital outlay	-	-
Park land dedication	35,547	-
Economic development	-	-
Community service	-	-
Committed for		
Fire department operations	-	-
Assigned for		
Capital outlay	338,654	-
Fire department operations	-	-
Unassigned	582,394	-
	<u>956,595</u>	<u>2,402,296</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,012,771</u>	<u>\$ 5,857,772</u>

The notes to the financial statements are an integral part of this statement.

2014 Construction	Other Governmental Funds	Total Governmental Funds
\$ 1,307,904	\$ 1,603,271	\$ 6,292,189
-	61,337	61,337
-	-	7,518
-	9,835	12,659
-	42,612	3,498,088
-	-	23,711
<u>\$ 1,307,904</u>	<u>\$ 1,717,055</u>	<u>\$ 9,895,502</u>
\$ 268,789	\$ 5,260	\$ 297,926
-	208,399	211,650
-	-	21,530
<u>268,789</u>	<u>213,659</u>	<u>531,106</u>
-	-	7,518
-	42,612	3,498,088
-	42,612	3,505,606
-	-	2,402,296
1,039,115	-	1,039,115
-	-	35,547
-	409,937	409,937
-	1,160	1,160
-	116,379	116,379
-	717,930	1,056,584
-	440,792	440,792
-	(225,414)	356,980
<u>1,039,115</u>	<u>1,460,784</u>	<u>5,858,790</u>
<u>\$ 1,307,904</u>	<u>\$ 1,717,055</u>	<u>\$ 9,895,502</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF MADISON LAKE, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014

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

Total fund balances - governmental funds	\$ 5,858,790
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	5,353,375
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Compensated absences payable	(8,725)
Bonds payable	(4,981,306)
Bond premiums, net of accumulated amortization	(54,503)
Long-term assets are not available to pay current-period expenditures and, therefore, are unavailable in the funds.	
Delinquent property taxes receivable	7,518
Special assessments receivable	3,498,088
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(73,304)</u>
Total net position - governmental activities	<u><u>\$ 9,599,933</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	General	Debt Service
REVENUES		
Taxes	\$ 430,098	\$ 78,961
Special assessments	11,048	2,265,294
Licenses and permits	49,316	-
Intergovernmental	170,314	-
Charges for services	5,246	-
Fines and forfeits	16,555	-
Investment earnings	6,942	81
Miscellaneous	26,665	150
	716,184	2,344,486
TOTAL REVENUES		
EXPENDITURES		
Current		
General government	153,368	900
Public safety	191,148	-
Streets and highways	128,271	-
Culture and recreation	12,537	-
Economic development	17,814	-
Miscellaneous	16,843	-
Capital outlay		
General government	14,874	-
Public safety	5,782	-
Streets and highways	14,253	-
Economic development	3,758	-
Debt service		
Principal	-	75,000
Interest and other	-	7,744
Bond issuance costs	-	143,721
	558,648	227,365
TOTAL EXPENDITURES		
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	157,536	2,117,121
OTHER FINANCING SOURCES (USES)		
Transfers in	48,817	30,000
Bonds issued	-	100,410
Premium on bonds issued	-	54,503
Transfers out	(45,538)	-
	3,279	184,913
TOTAL OTHER FINANCING SOURCES (USES)		
NET CHANGE IN FUND BALANCES	160,815	2,302,034
FUND BALANCES, JANUARY 1	795,780	100,262
FUND BALANCES, DECEMBER 31	\$ 956,595	\$ 2,402,296

The notes to the financial statements are an integral part of this statement.

2014 Construction	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,127	\$ 511,186
-	8,532	2,284,874
-	-	49,316
-	74,431	244,745
-	100,401	105,647
-	-	16,555
114	573	7,710
-	17,374	44,189
114	203,438	3,264,222
-	2,831	157,099
-	101,662	292,810
-	-	128,271
-	-	12,537
-	-	17,814
-	-	16,843
-	-	14,874
-	5,669	11,451
3,057,309	225,414	3,296,976
-	-	3,758
-	-	75,000
-	-	7,744
-	-	143,721
3,057,309	335,576	4,178,898
(3,057,195)	(132,138)	(914,676)
-	45,538	124,355
4,730,896	-	4,831,306
-	-	54,503
-	-	(45,538)
4,730,896	45,538	4,964,626
1,673,701	(86,600)	4,049,950
(634,586)	1,547,384	1,808,840
\$ 1,039,115	\$ 1,460,784	\$ 5,858,790

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

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

Net change in fund balances - governmental funds	\$ 4,049,950
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	3,063,396
Depreciation expense	(156,571)
<p>The net effect of various miscellaneous transactions involving capital assets</p>	
Book value of capital assets sold	(60,861)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	75,000
Debt issued or incurred	(4,831,306)
Premium on bonds issued, net of amortization expense	(54,503)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(69,939)
<p>Certain revenues are recognized as soon as it is earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	(15,779)
Special assessments	3,333,607
<p>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.</p>	
Compensated absences	(1,467)
Change in net position - governmental activities	\$ 5,331,527

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 401,741	\$ 401,741	\$ 430,098	\$ 28,357
Special assessments	-	-	11,048	11,048
Licenses and permits	25,000	25,000	49,316	24,316
Intergovernmental	162,419	162,419	170,314	7,895
Charges for services	1,075	1,075	5,246	4,171
Fines and forfeits	19,000	19,000	16,555	(2,445)
Investment earnings	3,500	3,500	6,942	3,442
Miscellaneous	7,060	7,060	26,665	19,605
TOTAL REVENUES	619,795	619,795	716,184	96,389
EXPENDITURES				
Current				
General government	164,206	164,206	153,368	10,838
Public safety	144,272	144,272	191,148	(46,876)
Streets and highways	124,936	124,936	128,271	(3,335)
Culture and recreation	16,171	16,171	12,537	3,634
Economic development	10,383	10,383	17,814	(7,431)
Miscellaneous	16,902	16,902	16,843	59
Capital outlay				
General government	14,000	14,000	14,874	(874)
Public safety	18,000	18,000	5,782	12,218
Streets and highways	70,000	70,000	14,253	55,747
Culture and recreation	30,000	30,000	-	30,000
Economic development	5,000	5,000	3,758	1,242
TOTAL EXPENDITURES	613,870	613,870	558,648	55,222
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,925	5,925	157,536	151,611
OTHER FINANCING SOURCES (USES)				
Transfers in	48,817	48,817	48,817	-
Transfers out	(48,538)	(48,538)	(45,538)	3,000
TOTAL OTHER FINANCING SOURCES (USES)	279	279	3,279	3,000
NET CHANGE IN FUND BALANCES	6,204	6,204	160,815	154,611
FUND BALANCES, JANUARY 1	795,780	795,780	795,780	-
FUND BALANCES, DECEMBER 31	\$ 801,984	\$ 801,984	\$ 956,595	\$ 154,611

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2014 AND 2013

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2014	2013	2014	2013
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 320,353	\$ 247,665	\$ 1,087,306	\$ 536,719
Receivables				
Accounts	26,404	23,581	44,537	41,696
Intergovernmental	965	203	15,129	326
Advances to other funds	-	-	-	359,071
TOTAL CURRENT ASSETS	347,722	271,449	1,146,972	937,812
NONCURRENT ASSETS				
Noncurrent special assessments receivable	-	-	35,302	35,302
Intangibles - sewer hookup rights	-	-	1,029,206	1,089,747
Capital assets				
Land	35,471	35,471	11,842	11,842
Construction in progress	325,072	17,745	561,103	-
Buildings	12,572	12,572	-	-
Infrastructure	3,090,783	2,883,752	4,043,318	3,985,119
Machinery and equipment	18,349	7,099	42,341	31,091
Less accumulated depreciation	(837,422)	(738,330)	(2,744,942)	(2,625,325)
Total capital assets, net of depreciation	2,644,825	2,218,309	1,913,662	1,402,727
TOTAL NONCURRENT ASSETS	2,644,825	2,218,309	2,978,170	2,527,776
TOTAL ASSETS	2,992,547	2,489,758	4,125,142	3,465,588
CURRENT LIABILITIES				
Accounts payable	33,499	16,055	34,419	1,069
Due to other governments	207,394	533	64,866	-
Accrued interest payable	13,714	8,298	22,030	12,292
Customer deposits payable	3,552	2,595	-	-
Loans payable - current	-	-	65,630	64,412
Bonds payable - current	65,000	64,782	55,076	54,076
TOTAL CURRENT LIABILITIES	323,159	92,263	242,021	131,849
NONCURRENT LIABILITIES				
Loans payable - net of current portion	-	-	975,116	1,040,746
Bonds payable - net of current portion	1,553,705	1,213,999	1,070,210	373,689
TOTAL NONCURRENT LIABILITIES	1,553,705	1,213,999	2,045,326	1,414,435
TOTAL LIABILITIES	1,876,864	1,306,262	2,287,347	1,546,284
NET POSITION				
Net investment in capital assets	1,124,281	939,528	970,674	974,962
Restricted for				
Infrastructure	-	-	52,903	49,459
Unrestricted	(8,598)	243,968	814,218	894,883
TOTAL NET POSITION	\$ 1,115,683	\$ 1,183,496	\$ 1,837,795	\$ 1,919,304

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2014	2013	2014	2013
\$ 79,169	\$ 78,880	\$ 1,486,828	\$ 863,264
11,086	9,470	82,027	74,747
-	128	16,094	657
-	-	-	359,071
<u>90,255</u>	<u>88,478</u>	<u>1,584,949</u>	<u>1,297,739</u>
-	-	35,302	35,302
-	-	1,029,206	1,089,747
-	-	47,313	47,313
-	-	886,175	17,745
-	-	12,572	12,572
-	-	7,134,101	6,868,871
-	-	60,690	38,190
-	-	(3,582,364)	(3,363,655)
-	-	4,558,487	3,621,036
-	-	5,622,995	4,746,085
<u>90,255</u>	<u>88,478</u>	<u>7,207,944</u>	<u>6,043,824</u>
5,450	5,298	73,368	22,422
-	1,122	272,260	1,655
-	-	35,744	20,590
-	-	3,552	2,595
-	-	65,630	64,412
-	-	120,076	118,858
<u>5,450</u>	<u>6,420</u>	<u>570,630</u>	<u>230,532</u>
-	-	975,116	1,040,746
-	-	2,623,915	1,587,688
-	-	3,599,031	2,628,434
<u>5,450</u>	<u>6,420</u>	<u>4,169,661</u>	<u>2,858,966</u>
-	-	2,094,955	1,914,490
-	-	52,903	49,459
<u>84,805</u>	<u>82,058</u>	<u>890,425</u>	<u>1,220,909</u>
<u>\$ 84,805</u>	<u>\$ 82,058</u>	<u>\$ 3,038,283</u>	<u>\$ 3,184,858</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2014	2013	2014	2013
OPERATING REVENUES				
Charges for services	\$ 204,404	\$ 193,686	\$ 333,697	\$ 315,286
OPERATING EXPENSES				
Salaries and benefits	48,026	47,045	46,362	45,465
Supplies	27,264	32,075	3,451	7,847
Other services and charges	14,826	34,500	156,251	124,560
Insurance	1,596	1,490	3,497	3,239
Utilities	15,857	15,972	13,553	12,334
Depreciation	99,092	81,523	119,617	120,411
TOTAL OPERATING EXPENSES	<u>206,661</u>	<u>212,605</u>	<u>342,731</u>	<u>313,856</u>
OPERATING INCOME (LOSS)	<u>(2,257)</u>	<u>(18,919)</u>	<u>(9,034)</u>	<u>1,430</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income (loss)	1,559	2,881	466	(2,169)
Other income	120	61	-	-
Interest and fees	(29,513)	(23,533)	(39,077)	(30,782)
Amortization expense	-	-	(60,541)	(60,541)
Bond issuance costs	(7,722)	-	(14,340)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(35,556)</u>	<u>(20,591)</u>	<u>(113,492)</u>	<u>(93,492)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(37,813)	(39,510)	(122,526)	(92,062)
CONNECTION AND INFRASTRUCTURE FEES	-	-	41,017	40,990
TRANSFERS IN	-	42,862	-	-
TRANSFERS OUT	(30,000)	(25,000)	-	-
CHANGE IN NET POSITION	(67,813)	(21,648)	(81,509)	(51,072)
NET POSITION, JANUARY 1	<u>1,183,496</u>	<u>1,205,144</u>	<u>1,919,304</u>	<u>1,970,376</u>
NET POSITION, DECEMBER 31	<u>\$ 1,115,683</u>	<u>\$ 1,183,496</u>	<u>\$ 1,837,795</u>	<u>\$ 1,919,304</u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2014	2013	2014	2013
\$ 122,421	\$ 115,714	\$ 660,522	\$ 624,686
-	-	94,388	92,510
853	754	31,568	40,676
70,017	64,138	241,094	223,198
-	-	5,093	4,729
-	-	29,410	28,306
-	-	218,709	201,934
<u>70,870</u>	<u>64,892</u>	<u>620,262</u>	<u>591,353</u>
<u>51,551</u>	<u>50,822</u>	<u>40,260</u>	<u>33,333</u>
13	15	2,038	727
-	-	120	61
-	-	(68,590)	(54,315)
-	-	(60,541)	(60,541)
-	-	(22,062)	-
<u>13</u>	<u>15</u>	<u>(149,035)</u>	<u>(114,068)</u>
51,564	50,837	(108,775)	(80,735)
-	-	41,017	40,990
-	-	-	42,862
<u>(48,817)</u>	<u>(42,518)</u>	<u>(78,817)</u>	<u>(67,518)</u>
2,747	8,319	(146,575)	(64,401)
<u>82,058</u>	<u>73,739</u>	<u>3,184,858</u>	<u>3,249,259</u>
<u>\$ 84,805</u>	<u>\$ 82,058</u>	<u>\$ 3,038,283</u>	<u>\$ 3,184,858</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 200,819	\$ 192,990	\$ 316,053	\$ 314,325
Payments to suppliers and vendors	(63,960)	(77,588)	(169,715)	(152,864)
Payments to and on behalf of employees	(48,026)	(47,045)	(46,362)	(45,465)
Other receipts	120	61	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	88,953	68,418	99,976	115,996
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
(Increase) decrease in advance to other funds	-	-	359,071	(359,071)
Transfers from other funds	-	42,862	-	-
Transfers to other funds	(30,000)	(25,000)	-	-
Increase (decrease) in customer deposits	957	678	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(29,043)	18,540	359,071	(359,071)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection and infrastructure fees received	-	-	41,017	40,990
Acquisition of capital assets	(296,886)	(84,175)	(539,373)	-
Proceeds from bonds issued, net of discounts	404,706	85,645	751,597	-
Principal paid on bonds	(64,782)	(64,000)	(118,488)	(117,291)
Interest paid on bonds	(24,097)	(24,186)	(29,339)	(31,786)
Bond issuance costs	(7,722)	-	(14,340)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	11,219	(86,716)	91,074	(108,087)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid) on cash and investments	1,559	2,881	466	(2,169)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	72,688	3,123	550,587	(353,331)
CASH AND CASH EQUIVALENTS, JANUARY 1	247,665	244,542	536,719	890,050
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 320,353	\$ 247,665	\$ 1,087,306	\$ 536,719
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (2,257)	\$ (18,919)	\$ (9,034)	\$ 1,430
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	120	61	-	-
Depreciation	99,092	81,523	119,617	120,411
(Increase) decrease in assets				
Accounts receivable	(2,823)	(870)	(2,841)	(1,256)
Due from other governments	(762)	174	(14,803)	295
Increase (decrease) in liabilities				
Accounts and contracts payable	(4,247)	6,221	370	116
Due to other governments	(170)	228	6,667	(5,000)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 88,953	\$ 68,418	\$ 99,976	\$ 115,996
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Amortization of sewer rights	\$ -	\$ -	\$ 60,541	\$ 60,541
Capital assets acquired on account	229,982	1,260	91,179	-

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2014	2013	2014	2013
\$ 120,933	\$ 114,548	\$ 637,805	\$ 621,863
(71,840)	(63,417)	(305,515)	(293,869)
-	-	(94,388)	(92,510)
-	-	120	61
<u>49,093</u>	<u>51,131</u>	<u>238,022</u>	<u>235,545</u>
-	-	359,071	(359,071)
-	-	-	42,862
(48,817)	(42,518)	(78,817)	(67,518)
-	-	957	678
<u>(48,817)</u>	<u>(42,518)</u>	<u>281,211</u>	<u>(383,049)</u>
-	-	41,017	40,990
-	-	(836,259)	(84,175)
-	-	1,156,303	85,645
-	-	(183,270)	(181,291)
-	-	(53,436)	(55,972)
-	-	(22,062)	-
-	-	<u>102,293</u>	<u>(194,803)</u>
<u>13</u>	<u>15</u>	<u>2,038</u>	<u>727</u>
289	8,628	623,564	(341,580)
<u>78,880</u>	<u>70,252</u>	<u>863,264</u>	<u>1,204,844</u>
<u>\$ 79,169</u>	<u>\$ 78,880</u>	<u>\$ 1,486,828</u>	<u>\$ 863,264</u>
\$ 51,551	\$ 50,822	\$ 40,260	\$ 33,333
-	-	120	61
-	-	218,709	201,934
(1,616)	(1,244)	(7,280)	(3,370)
128	78	(15,437)	547
152	1,100	(3,725)	7,437
<u>(1,122)</u>	<u>375</u>	<u>5,375</u>	<u>(4,397)</u>
<u>\$ 49,093</u>	<u>\$ 51,131</u>	<u>\$ 238,022</u>	<u>\$ 235,545</u>
\$ -	\$ -	\$ 60,541	\$ 60,541
-	-	321,161	1,260

The notes to the financial statements are an integral part of this statement.

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CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Madison Lake, (the City) operates under “Optional Plan A” as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

B. Government-wide and fund financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. Measurement focus, basis of accounting, and financial statement presentation

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

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

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

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

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

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *2014 Construction fund* accounts for costs associated with the annexation project.

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and ensure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and ensure that user charges are sufficient to pay for those costs.

The *Refuse fund* accounts for the costs associated with the City's refuse collection and ensure that user charges are sufficient to pay for those costs.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

D. Assets, liabilities, deferred inflows of resources, and net position/fund balance

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the Statements of Cash Flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments for the City are reported at fair value. The Minnesota Municipal Money Market Fund is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The City's investment in this trust is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

The Franklin Fund, Primevest Fund and 4M Fund investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares. Financial statements of the 4M fund can be obtained by contacting RBC Global Asset Management at 100 South Fifth Street Suite 2300, Minneapolis, MN 55402-1240.

Investment policy

The City will invest City funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio.

There are three main objectives of all investment activities that are prioritized as follows:

- *Safety* - Safety of principal is the foremost objective of the City. Preserving capital and protecting investment principal shall be the primary objective of each investment transaction.
- *Liquidity* - Maintaining the necessary liquidity to match expected liabilities is the second investment objective.
- *Yield* - Obtaining a reasonable return to the third investment objective.

In accordance with Minnesota statute 118A.03 on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

Property taxes

The City Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the governmental fund financial statements.

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2014. All enterprise fund trade receivables are considered collectible because the City annually certifies delinquent accounts to the County for collection.

Special assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Prepaid items

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using the appropriate price-level index to deflate the cost to the acquisition year or estimate acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For the financial statements purposes only, a capitalization threshold is established for each capital asset category as follows:

Land and land improvements	\$	1
Buildings		10,000
Machinery and equipment		1,000
Infrastructure		50,000
Other assets		1,000

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land improvements	15 - 20
Buildings	7 - 40
System improvements/infrastructure	15 - 50
Machinery and equipment	5 - 15

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General fund is typically used to liquidate governmental compensated absences payable.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized 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.

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unrestricted fund balance of 35 percent of the next year's budgeted operating expenditures of the General fund for cash-flow timing needs.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net position

Net position represents the difference between assets and liabilities. Net positions are displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year’s presentation.

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund and Fire special revenue fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Administrator/Clerk so that a budget may be prepared. Before September 30, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Administrator/Clerk. The legal level of budgetary control is the department level. Budgeted amounts are originally adopted or as amended by the Council. There were no budget amendments during 2014.

B. Deficit fund equity

The following funds had fund equity deficits at December 31, 2014:

<u>Fund</u>	<u>Amount</u>
Capital projects	
2015 Construction	\$ 17,015
CSAH 24 Reconstruction	208,399

The above fund deficits will be funded through future bond proceeds.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$683,692 and the bank balance was \$710,970. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance of \$460,970 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2014, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled investments			
Minnesota Municipal Money Market Fund (4M Fund)	Not rated	less than 6 months	\$ 6,928,118
Franklin Fund - US Government Securities	N/A	less than 6 months	144,213
Primevest Money Market	N/A	less than 6 months	<u>22,770</u>
Total investments			<u>\$ 7,095,101</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A N/A indicates not applicable or available.

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City has adopted a formal investment policy outlining objectives and procedures for investing idle funds or to address the above risks.

The Minnesota Municipal Money Market Fund (the 4M Fund) is a customized cash management and investment program for Minnesota public funds. Sponsored and governed by the League of Minnesota Cities since 1987, the 4M Fund is a unique investment alternative designed to address the daily and long term investment needs of Minnesota cities and other municipal entities. Allowable under Minnesota statutes, the 4M Fund is comprised of top quality, rated investments.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Cash on hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$224.

Cash and investments summary

A reconciliation of cash and investments as shown on the statement of net position for the City follows:

Petty cash	\$ 224
Deposits	683,692
Investments	<u>7,095,101</u>
Total	<u><u>\$ 7,779,017</u></u>

B. Notes and contracts receivable

The City received funds from Federal, State and County to be used for community development. These funds were borrowed for improvements to existing businesses and are to be paid back to the City with interest at 3.00 percent over 20 years. The balance on these loans at December 31, 2014 was \$61,337.

C. Intangibles - sewer hookup rights

The City entered into a Sanitary Sewer System Interconnection agreement with the City of Mankato. The City of Mankato is required to operate and maintain the interconnection and is owned by the City of Mankato. The City is making payments to the City of Mankato to help with the construction costs; total cost to the City is \$1,210,829. The City will also reimburse the City of Mankato for all costs associated with maintenance of the lift station and forcemain based on the City's flow percentage received at the lift station. The City has decided to amortize these sewer hookup rights over 20 years, amortizing \$60,541 per year. The balance of the hookup rights at December 31, 2014 was \$1,029,206.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 466,218	\$ -	\$ (60,861)	\$ 405,357
Construction in progress	633,938	3,035,273	-	3,669,211
Total capital assets not being depreciated	1,100,156	3,035,273	(60,861)	4,074,568
Capital assets being depreciated				
Land improvements	37,509	-	-	37,509
Buildings	916,176	3,000	-	919,176
Infrastructure	2,483,580	-	-	2,483,580
Machinery and equipment	425,321	19,566	(27,911)	416,976
Vehicles	630,948	5,557	(96,564)	539,941
Total capital assets being depreciated	4,493,534	28,123	(124,475)	4,397,182
Less accumulated depreciation for				
Land improvements	(11,489)	(2,503)	-	(13,992)
Buildings	(702,112)	(24,026)	-	(726,138)
Infrastructure	(1,555,798)	(61,907)	-	(1,617,705)
Machinery and equipment	(304,828)	(27,870)	27,911	(304,787)
Vehicles	(512,052)	(40,265)	96,564	(455,753)
Total accumulated depreciation	(3,086,279)	(156,571)	124,475	(3,118,375)
Total capital assets being depreciated, net	1,407,255	(128,448)	-	1,278,807
Governmental activities capital assets, net	\$ 2,507,411	\$ 2,906,825	\$ (60,861)	\$ 5,353,375

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 47,313	\$ -	\$ -	\$ 47,313
Construction in progress	17,745	868,430	-	886,175
Total capital assets not being depreciated	<u>65,058</u>	<u>868,430</u>	<u>-</u>	<u>933,488</u>
Capital assets being depreciated				
Buildings	12,572	-	-	12,572
Infrastructure	6,868,871	265,230	-	7,134,101
Machinery and equipment	38,190	22,500	-	60,690
Total capital assets being depreciated	<u>6,919,633</u>	<u>287,730</u>	<u>-</u>	<u>7,207,363</u>
Less accumulated depreciation for				
Buildings	(12,572)	-	-	(12,572)
Infrastructure	(3,313,436)	(217,366)	-	(3,530,802)
Machinery and equipment	(37,647)	(1,343)	-	(38,990)
Total accumulated depreciation	<u>(3,363,655)</u>	<u>(218,709)</u>	<u>-</u>	<u>(3,582,364)</u>
Total capital assets being depreciated, net	<u>3,555,978</u>	<u>69,021</u>	<u>-</u>	<u>3,624,999</u>
Business-type activities capital assets, net	<u>\$ 3,621,036</u>	<u>\$ 937,451</u>	<u>\$ -</u>	<u>\$ 4,558,487</u>

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

Governmental activities		
General government		\$ 19,267
Public safety		38,395
Streets and highways		90,325
Culture and recreation		8,584
Total depreciation expense - governmental activities		<u>\$ 156,571</u>
Business-type activities		
Water utility		\$ 99,092
Sewer utility		119,617
Total depreciation expense - business-type activities		<u>\$ 218,709</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Interfund transfers

	Transfer in			Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	
Transfer out				
General fund	\$ -	\$ -	\$ 45,538	\$ 45,538
Water Utility fund	-	30,000	-	30,000
Refuse fund	48,817	-	-	48,817
Total transfers out	\$ 48,817	\$ 30,000	\$ 45,538	\$ 124,355

The City made the following transfers for the year ended December 31, 2014:

- From the Water Utility fund (\$30,000) to the Debt Service fund for debt service.
- From the Refuse fund (\$48,817) to the General fund to transfer profits. The General fund supports street maintenance; garbage trucks contribute to street breakdown.
- From the General fund (\$45,538) to the Fire fund which is the City's portion of the fire departments annual operating budget.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Long-term debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

G.O. special assessment (improvement) bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. PIR Refunding Bonds of 2004B	\$ 300,000	3.00 - 4.10 %	11/01/04	02/01/16	\$ 60,000
G.O. Improvement Bonds of 2004A	265,000	3.00 - 4.00	09/01/04	02/01/15	30,000
G.O. Improvement Bonds of 2006A	140,000	4.25	11/01/06	02/01/18	60,000
G.O. Improvement Bonds of 2014A	3,066,306	3.00 - 3.50	07/14/14	02/01/35	3,066,306
G.O. Improvement Bonds of 2014B	1,765,000	3.00 - 3.63	07/14/14	02/01/35	<u>1,765,000</u>
Total G.O. Special Assessment Bonds					<u><u>\$ 4,981,306</u></u>

The annual debt service requirements to maturity for general obligation special assessment (improvement) bonds are as follows:

Year Ending December 31,	G.O. Special Assessment Bonds		
	Governmental Activities		
	Principal	Interest	Total
2015	\$ 75,000	\$ 158,967	\$ 233,967
2016	174,192	154,561	328,753
2017	171,042	149,030	320,072
2018	221,101	142,961	364,062
2019	209,743	136,404	346,147
2020 - 2024	1,097,847	585,467	1,683,314
2025 - 2029	1,242,531	408,534	1,651,065
2030 - 2034	1,462,273	188,535	1,650,808
2035	<u>327,577</u>	<u>5,808</u>	<u>333,385</u>
Total	<u><u>\$ 4,981,306</u></u>	<u><u>\$ 1,930,267</u></u>	<u><u>\$ 6,911,573</u></u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

G.O. revenue bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Sewer Revenue					
Bonds of 1995A (PFA)	\$ 400,400	0.00 %	09/25/95	02/20/17	\$ 37,688
G.O. Sewer Revenue					
Refunding Bonds, 2007A	235,000	3.95	12/01/07	02/01/17	85,000
G.O. Revenue Note (PFA) of 2009	320,500	1.88	06/01/09	08/20/29	251,000
G.O. Revenue Note (PFA) of 2010	596,692	1.86	05/17/10	08/20/29	484,000
G.O. Revenue Note (PFA) of 2011	820,008	1.91	08/08/11	08/20/31	730,000
G.O. Revenue Water & Sewer					
Bonds of 2014A	1,143,694	3.00 - 3.50	07/14/14	02/01/35	<u>1,143,694</u>
 Total G.O. Revenue Bonds					 <u><u>\$ 2,731,382</u></u>

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

December 31,	G.O. Revenue Bonds		
	Business-type Activities		
	Principal	Interest	Total
2015	\$ 120,076	\$ 66,626	\$ 186,702
2016	151,883	63,642	215,525
2017	153,495	60,032	213,527
2018	132,899	56,649	189,548
2019	136,257	53,576	189,833
2020 - 2024	716,153	219,823	935,976
2025 - 2029	796,470	133,388	929,858
2030 - 2034	446,726	46,817	493,543
2035	<u>77,423</u>	<u>1,355</u>	<u>78,778</u>
 Total	 <u><u>\$ 2,731,382</u></u>	 <u><u>\$ 701,908</u></u>	 <u><u>\$ 3,433,290</u></u>

Annual revenues from charges for services, principle and interest payments, and percentages of revenue required to cover principal and interest payments are as follows:

	Water Utility	Sewer Utility
Revenues	\$ 204,404	\$ 333,697
Principle and interest	88,879	147,827
Percentage of revenues	43.5%	44.3%

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Loans payable

The City entered into a Sanitary Sewer System Interconnection agreement with the City of Mankato. The City of Mankato is required to operate and maintain the interconnection. The City is making payments to the City of Mankato to help with the construction costs.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Loan with City of Mankato	\$ 1,210,829	1.88 %	08/01/12	08/01/28	<u>\$ 1,040,746</u>

The annual debt service requirements to maturity for loans payable are as follows:

Year Ending December 31,	Loans Business-type Activities		
	Principal	Interest	Total
2015	\$ 65,630	\$ 19,280	\$ 84,910
2016	66,871	18,039	84,910
2017	68,135	16,774	84,909
2018	69,423	15,486	84,909
2019	70,736	14,173	84,909
2020 - 2024	374,256	50,290	424,546
2025 - 2028	<u>325,695</u>	<u>13,941</u>	<u>339,636</u>
Total	<u>\$ 1,040,746</u>	<u>\$ 147,983</u>	<u>\$ 1,188,729</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
General obligation special assessment bonds	\$ 225,000	\$ 4,831,306	\$ (75,000)	\$ 4,981,306	\$ 75,000
Bond premiums	-	54,503	-	54,503	-
Total bonds payable	225,000	4,885,809	(75,000)	5,035,809	75,000
Compensated absences payable	7,258	1,467	-	8,725	8,725
Governmental activities long-term liabilities	<u>\$ 232,258</u>	<u>\$ 4,887,276</u>	<u>\$ (75,000)</u>	<u>\$ 5,044,534</u>	<u>\$ 83,725</u>
Business-type activities					
Bonds payable					
General obligation revenue bonds	\$ 1,706,546	\$ 1,143,694	\$ (118,858)	\$ 2,731,382	\$ 120,076
Bond premiums	-	12,609	-	12,609	-
Total bonds payable	1,706,546	1,156,303	(118,858)	2,743,991	120,076
Loans payable	1,105,158	-	(64,412)	1,040,746	65,630
Business-type activities long-term liabilities	<u>\$ 2,811,704</u>	<u>\$ 1,156,303</u>	<u>\$ (183,270)</u>	<u>\$ 3,784,737</u>	<u>\$ 185,706</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. Plan description

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

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

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

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

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED

B. 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 Minnesota statutes. GERF 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 were required to contribute 10.20 percent of their annual covered salary in 2014. In 2014, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.25 percent for Coordinated Plan members, and 15.3 percent for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$11,879, \$11,185, and \$10,722, respectively. The City's contributions to the PEPFF for the years ending December 31, 2014, 2013, and 2012 were \$15,902, \$11,657, and \$11,742, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

A. Plan Description

All members of the Madison Lake Fire Department, (the Department) are covered by a defined benefit plan administered by the Madison Lake Firefighters' Relief Association, (the Association). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report. The report may be obtained by writing to Madison Lake Firefighters' Relief Association, Madison Lake, MN 56063.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION - CONTINUED

B. Funding policy

The financial requirements of the Special fund are determined in accordance with section 69.772 of the Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service, and 5 years of Association membership or upon death. The City's annual pension cost for the current year and related information for the plan is as follows:

Annual pension cost	\$ 26,002
Contributions made	
City (required)	7,716
State aid	18,286
Actuarial valuation date	12/31/14
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/14	\$ 26,002	100.0 %	\$ -
12/31/13	17,455	100.0	-
12/31/12	17,300	100.0	-

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/14 *	\$ -	\$ -	\$ -	- %	\$ 1,200
12/31/13	379,557	268,861	110,696	141.2	1,200
12/31/12	311,173	281,735	29,438	110.4	1,100

* Information unavailable at time of audit

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 6: OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Legal debt margin

The City's statutory debt limit is 3 percent of the estimated taxable market value of real and personal property located in the City. The taxable market value was \$98,181,000 at December 31, 2014 for a limit of \$5,347,726 (net of debt service reserves). The City currently has no general obligation debt subject to the limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

D. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2014 was \$153,144 for LGA. This accounted for 21 percent of General fund revenues.

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and temporary investments	\$ 899,163	\$ 704,108	\$ 1,603,271
Receivables			
Special assessments			
Delinquent	-	178	178
Noncurrent	-	42,434	42,434
Accounts	9,835	-	9,835
Loans	61,337	-	61,337
	<u>\$ 970,335</u>	<u>\$ 746,720</u>	<u>\$ 1,717,055</u>
LIABILITIES			
Accounts payable	\$ 2,067	\$ 3,193	\$ 5,260
Due to other governments	-	208,399	208,399
	<u>2,067</u>	<u>211,592</u>	<u>213,659</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - special assessments	-	42,612	42,612
	<u>-</u>	<u>42,612</u>	<u>42,612</u>
FUND BALANCES			
Restricted for			
Community service	1,160	-	1,160
Economic development	409,937	-	409,937
Committed for			
Fire department operations	116,379	-	116,379
Assigned for			
Fire department operations	440,792	-	440,792
Capital outlay	-	717,930	717,930
Unassigned	-	(225,414)	(225,414)
	<u>968,268</u>	<u>492,516</u>	<u>1,460,784</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 970,335</u>	<u>\$ 746,720</u>	<u>\$ 1,717,055</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ 2,127	\$ -	\$ 2,127
Special assessments	-	8,532	8,532
Intergovernmental	74,431	-	74,431
Charges for services	100,401	-	100,401
Investment earnings	157	416	573
Miscellaneous	1,958	15,416	17,374
	<u>179,074</u>	<u>24,364</u>	<u>203,438</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
General government	2,831	-	2,831
Public safety	101,662	-	101,662
Capital outlay			
Public safety	5,669	-	5,669
Streets and highways	-	225,414	225,414
	<u>110,162</u>	<u>225,414</u>	<u>335,576</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	68,912	(201,050)	(132,138)
OTHER FINANCING SOURCES (USES)			
Transfers in	45,538	-	45,538
NET CHANGE IN FUND BALANCES	114,450	(201,050)	(86,600)
FUND BALANCES, JANUARY 1	853,818	693,566	1,547,384
FUND BALANCES, DECEMBER 31	<u>\$ 968,268</u>	<u>\$ 492,516</u>	<u>\$ 1,460,784</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	120	230	231
	Fire	Economic Development Loan - Federal	Economic Development Loan - State
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and temporary investments	\$ 549,403	\$ 325,481	\$ 23,119
Receivables			
Loans	-	61,337	-
Accounts	9,835	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 559,238</u></u>	<u><u>\$ 386,818</u></u>	<u><u>\$ 23,119</u></u>
LIABILITIES			
Accounts payable	<u>\$ 2,067</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES			
Restricted for			
Community service	-	-	-
Economic development	-	386,818	23,119
Committed for			
Fire department operations	116,379	-	-
Assigned for			
Fire department operations	440,792	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u><u>557,171</u></u>	<u><u>386,818</u></u>	<u><u>23,119</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 559,238</u></u>	<u><u>\$ 386,818</u></u>	<u><u>\$ 23,119</u></u>

800

<u>Gambling</u>	<u>Total Nonmajor</u>
\$ 1,160	\$ 899,163
-	61,337
<u>-</u>	<u>9,835</u>
<u>\$ 1,160</u>	<u>\$ 970,335</u>
<u>\$ -</u>	<u>\$ 2,067</u>
1,160	1,160
-	409,937
-	116,379
<u>-</u>	<u>440,792</u>
<u>1,160</u>	<u>968,268</u>
<u>\$ 1,160</u>	<u>\$ 970,335</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	120	230	231
	Fire	Economic Development Loan	Economic Development Loan - State
REVENUES			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	74,431	-	-
Charges for services	100,401	-	-
Investment earnings	93	58	3
Miscellaneous			
Other	1,028	-	-
Loan payments	-	930	-
TOTAL REVENUES	175,953	988	3
EXPENDITURES			
Current			
General government	-	-	-
Public safety	101,662	-	-
Capital outlay			
Public safety	5,669	-	-
TOTAL EXPENDITURES	107,331	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	68,622	988	3
OTHER FINANCING SOURCES (USES)			
Transfers in	45,538	-	-
NET CHANGE IN FUND BALANCES	114,160	988	3
FUND BALANCES, JANUARY 1	443,011	385,830	23,116
FUND BALANCES, DECEMBER 31	<u>\$ 557,171</u>	<u>\$ 386,818</u>	<u>\$ 23,119</u>

800

<u>Gambling</u>	<u>Total Nonmajor</u>
\$ 2,127	\$ 2,127
-	74,431
-	100,401
3	157
-	1,028
-	930
<u>2,130</u>	<u>179,074</u>
2,831	2,831
-	101,662
<u>-</u>	<u>5,669</u>
<u>2,831</u>	<u>110,162</u>
(701)	68,912
<u>-</u>	<u>45,538</u>
(701)	114,450
<u>1,861</u>	<u>853,818</u>
<u>\$ 1,160</u>	<u>\$ 968,268</u>

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CITY OF MADISON LAKE, MINNESOTA
FIRE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014				2013
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$ 15,831	\$ 15,831	\$ 74,431	\$ 58,600	\$ 55,221
Charges for services	113,988	113,988	100,401	(13,587)	107,095
Investment earnings	50	50	93	43	75
Miscellaneous	5,367	5,367	1,028	(4,339)	5,250
TOTAL REVENUES	135,236	135,236	175,953	40,717	167,641
EXPENDITURES					
Current					
Public safety	116,141	116,141	101,662	14,479	92,648
Capital outlay					
Public safety	69,633	69,633	5,669	63,964	90,632
TOTAL EXPENDITURES	185,774	185,774	107,331	78,443	183,280
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(50,538)	(50,538)	68,622	119,160	(15,639)
OTHER FINANCING SOURCES (USES)					
Transfers in	45,538	45,538	45,538	-	60,906
NET CHANGE IN FUND BALANCES	(5,000)	(5,000)	114,160	119,160	55,267
FUND BALANCES, JANUARY 1	443,011	443,011	443,011	-	387,744
FUND BALANCES, DECEMBER 31	<u>\$ 438,011</u>	<u>\$ 438,011</u>	<u>\$ 557,171</u>	<u>\$ 119,160</u>	<u>\$ 443,011</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	401 Public Improvement Revolving	413 CSAH 26 Reconstruction	415 2015 Construction	Total Nonmajor
ASSETS				
Cash and temporary investments	\$ 717,930	\$ -	\$ (13,822)	\$ 704,108
Receivables				
Special assessments				
Delinquent	178	-	-	178
Noncurrent	42,434	-	-	42,434
TOTAL ASSETS	<u>\$ 760,542</u>	<u>\$ -</u>	<u>\$ (13,822)</u>	<u>\$ 746,720</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 3,193	\$ 3,193
Due to other governments	-	208,399	-	208,399
TOTAL LIABILITIES	<u>-</u>	<u>208,399</u>	<u>3,193</u>	<u>211,592</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - special assessments	42,612	-	-	42,612
FUND BALANCES				
Assigned for				
Capital outlay	717,930	-	-	717,930
Unassigned	-	(208,399)	(17,015)	(225,414)
TOTAL FUND BALANCES	<u>717,930</u>	<u>(208,399)</u>	<u>(17,015)</u>	<u>492,516</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 760,542</u>	<u>\$ -</u>	<u>\$ (13,822)</u>	<u>\$ 746,720</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	401 Public Improvement Revolving	413 CSAH 26 Reconstruction	415 2015 Construction	Total Nonmajor
REVENUES				
Special assessments	\$ 8,532	\$ -	\$ -	\$ 8,532
Investment earnings	416	-	-	416
Miscellaneous				
Other	15,416	-	-	15,416
	<u>24,364</u>	<u>-</u>	<u>-</u>	<u>24,364</u>
TOTAL REVENUES	24,364	-	-	24,364
EXPENDITURES				
Capital outlay				
Streets and highways	-	208,399	17,015	225,414
	<u>-</u>	<u>208,399</u>	<u>17,015</u>	<u>225,414</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	24,364	(208,399)	(17,015)	(201,050)
FUND BALANCES, JANUARY 1	<u>693,566</u>	<u>-</u>	<u>-</u>	<u>693,566</u>
FUND BALANCES, DECEMBER 31	<u>\$ 717,930</u>	<u>\$ (208,399)</u>	<u>\$ (17,015)</u>	<u>\$ 492,516</u>

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CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and temporary investments	\$ 983,257	\$ 832,002
Receivables		
Delinquent taxes	7,518	23,297
Special assessments	-	10,398
Accounts	2,824	812
Intergovernmental	19,172	3,737
TOTAL ASSETS	\$ 1,012,771	\$ 870,246
LIABILITIES		
Accounts payable	\$ 23,877	\$ 19,712
Due to other governments	3,251	3,512
Accrued salaries payable	21,530	17,547
TOTAL LIABILITIES	48,658	40,771
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	7,518	23,297
Unavailable revenue - special assessments	-	10,398
TOTAL DEFERRED INFLOWS OF RESOURCES	7,518	33,695
FUND BALANCES		
Restricted for		
Park land dedication	35,547	20,547
Assigned for		
Capital outlay	338,654	118,639
Unassigned	582,394	656,594
TOTAL FUND BALANCES	956,595	795,780
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,012,771	\$ 870,246

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014		Variance with Final Budget	2013
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Taxes				
Property taxes	\$ 394,741	\$ 415,990	\$ 21,249	\$ 394,939
Franchise fees	6,000	13,310	7,310	6,003
Gambling taxes	1,000	798	(202)	1,143
Total taxes	401,741	430,098	28,357	402,085
Special assessments	-	11,048	11,048	-
Licenses and permits				
Business	5,300	18,198	12,898	5,377
Nonbusiness	19,700	31,118	11,418	15,081
Total licenses and permits	25,000	49,316	24,316	20,458
Intergovernmental				
Federal				
Other federal aids	-	8,169	8,169	2,588
State				
Local government aid	152,986	153,144	158	119,406
Other state aids	8,833	8,401	(432)	7,634
Total State	161,819	161,545	(274)	127,040
County				
Highway aid	600	600	-	600
Total intergovernmental	162,419	170,314	7,895	130,228
Charges for services				
General government	1,008	5,210	4,202	2,180
Public safety	5	-	(5)	-
Streets and highways	-	-	-	842
Other	62	36	(26)	103
Total charges for services	1,075	5,246	4,171	3,125
Fines and forfeits	19,000	16,555	(2,445)	11,962
Investment earnings	3,500	6,942	3,442	1,169
Miscellaneous				
Other	-	445	445	2,261
Rent	2,060	2,113	53	1,896
Contributions and donations	-	21,909	21,909	-
Refunds and reimbursements	5,000	2,198	(2,802)	6,230
Total miscellaneous	7,060	26,665	19,605	10,387
TOTAL REVENUES	619,795	716,184	96,389	579,414

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014		Variance with Final Budget	2013
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES				
Current				
General government				
Mayor and Council				
Personal services	\$ 8,397	\$ 6,231	\$ 2,166	\$ 8,235
Supplies	400	1,292	(892)	576
Other services and charges	9,948	22,270	(12,322)	17,928
Total Mayor and Council	<u>18,745</u>	<u>29,793</u>	<u>(11,048)</u>	<u>26,739</u>
City clerk				
Personal services	73,326	69,874	3,452	60,339
Supplies	2,697	3,579	(882)	3,652
Other services and charges	9,027	8,012	1,015	7,869
Total city clerk	<u>85,050</u>	<u>81,465</u>	<u>3,585</u>	<u>71,860</u>
Election				
Personal services	1,800	900	900	-
Supplies	300	311	(11)	-
Other services and charges	350	250	100	250
Total election	<u>2,450</u>	<u>1,461</u>	<u>989</u>	<u>250</u>
Legal and audit				
Other services	33,994	21,017	12,977	25,606
Planning and zoning				
Personal services	3,450	2,138	1,312	1,450
Supplies	300	439	(139)	279
Other services and charges	496	98	398	46
Total planning and zoning	<u>4,246</u>	<u>2,675</u>	<u>1,571</u>	<u>1,775</u>
Municipal building				
Personal services	2,175	478	1,697	1,283
Supplies	5,075	5,169	(94)	4,406
Other services and charges	12,471	11,310	1,161	10,597
Total municipal building	<u>19,721</u>	<u>16,957</u>	<u>2,764</u>	<u>16,286</u>
Total general government	<u>164,206</u>	<u>153,368</u>	<u>10,838</u>	<u>142,516</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014		Variance with Final Budget	2013
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES - CONTINUED				
Current - continued				
Public safety				
Police				
Personal services	\$ 96,467	\$ 134,992	\$ (38,525)	\$ 103,642
Supplies	14,725	16,124	(1,399)	13,878
Other services and charges	16,419	14,959	1,460	9,643
Total police	<u>127,611</u>	<u>166,075</u>	<u>(38,464)</u>	<u>127,163</u>
Building/health inspection				
Personal services	2,121	2,002	119	1,919
Supplies	150	176	(26)	9
Other services and charges	11,762	20,181	(8,419)	6,557
Total building/health inspection	<u>14,033</u>	<u>22,359</u>	<u>(8,326)</u>	<u>8,485</u>
Civil defense				
Supplies	-	-	-	1,064
Other services and charges	228	235	(7)	270
Total civil defense	<u>228</u>	<u>235</u>	<u>(7)</u>	<u>1,334</u>
Animal control				
Other services and charges	400	159	241	66
Rental inspection				
Personal services	2,000	2,320	(320)	2,380
Total public safety	<u>144,272</u>	<u>191,148</u>	<u>(46,876)</u>	<u>139,428</u>
Streets and highways				
Street maintenance				
Personal services	48,462	52,010	(3,548)	45,464
Supplies	37,500	38,161	(661)	25,783
Other services and charges	13,590	16,641	(3,051)	10,031
Total street maintenance	<u>99,552</u>	<u>106,812</u>	<u>(7,260)</u>	<u>81,278</u>
Snow and ice removal				
Supplies	8,000	6,778	1,222	3,831
Street lighting				
Other services and charges	17,384	14,681	2,703	18,012
Total streets and highways	<u>124,936</u>	<u>128,271</u>	<u>(3,335)</u>	<u>103,121</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014		Variance with Final Budget	2013
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES - CONTINUED				
Current - continued				
Culture and recreation				
Parks				
Personal services	\$ 92	\$ 78	\$ 14	\$ 72
Supplies	7,800	8,248	(448)	4,648
Other services and charges	8,279	4,211	4,068	5,503
Total culture and recreation	16,171	12,537	3,634	10,223
Housing and economic development				
Economic development				
Personal services	2,183	1,953	230	1,688
Other services and charges	8,200	15,861	(7,661)	4,844
Total housing and economic development	10,383	17,814	(7,431)	6,532
Miscellaneous				
Unallocated				
Other services and charges	16,902	16,843	59	811
Total current	476,870	519,981	(43,111)	402,631
Capital outlay				
General government	14,000	14,874	(874)	8,792
Public safety	18,000	5,782	12,218	7,653
Streets and highways	70,000	14,253	55,747	62,930
Culture and recreation	30,000	-	30,000	9,352
Economic development	5,000	3,758	1,242	250
Total capital outlay	137,000	38,667	98,333	88,977
TOTAL EXPENDITURES	613,870	558,648	55,222	491,608
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,925	157,536	151,611	87,806
OTHER FINANCING SOURCES (USES)				
Transfers in	48,817	48,817	-	143,398
Transfers out	(48,538)	(45,538)	3,000	(107,966)
TOTAL OTHER FINANCING SOURCES (USES)	279	3,279	3,000	35,432
NET CHANGE IN FUND BALANCES	6,204	160,815	154,611	123,238
FUND BALANCES, JANUARY 1	795,780	795,780	-	672,542
FUND BALANCES, DECEMBER 31	\$ 801,984	\$ 956,595	\$ 154,611	\$ 795,780

CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014
(With Comparative Totals for December 31, 2013)

	330 2004A G.O. Improvement Bonds	340 2006 G.O. Improvement Bonds	350 CSAH 26 Reconstruction
ASSETS			
Cash and temporary investments	\$ 26,347	\$ 15,667	\$ 48,919
Receivables			
Special assessments			
Delinquent	332	-	-
Noncurrent	-	6,783	94,333
Intergovernmental	4,536	3	-
TOTAL ASSETS	<u>\$ 31,215</u>	<u>\$ 22,453</u>	<u>\$ 143,252</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - special assessments	\$ 332	\$ 6,783	\$ 94,333
FUND BALANCES			
Restricted for			
Debt service	30,883	15,670	48,919
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 31,215</u>	<u>\$ 22,453</u>	<u>\$ 143,252</u>

360 2014A & B G.O. Improvement Bonds	499 2004B G.O. PIR Refunding Bonds	Totals	
		2014	2013
\$ 2,257,350	\$ 49,474	\$ 2,397,757	\$ 100,262
-	2,553	2,885	5,185
3,278,470	73,005	3,452,591	99,039
-	-	4,539	-
<u>\$ 5,535,820</u>	<u>\$ 125,032</u>	<u>\$ 5,857,772</u>	<u>\$ 204,486</u>
\$ 3,278,470	\$ 75,558	\$ 3,455,476	\$ 104,224
<u>2,257,350</u>	<u>49,474</u>	<u>2,402,296</u>	<u>100,262</u>
<u>\$ 5,535,820</u>	<u>\$ 125,032</u>	<u>\$ 5,857,772</u>	<u>\$ 204,486</u>

CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Totals for the Year Ended December 31, 2013)

	330 2004A G.O. Improvement Bonds	340 2006 G.O. Improvement Bonds	350 CSAH 26 Reconstruction
REVENUES			
Taxes			
Property taxes	\$ -	\$ 14,574	\$ 6,988
Special assessments	10,868	2,762	31,778
Investment earnings	-	-	3
Miscellaneous	-	-	150
TOTAL REVENUES	10,868	17,336	38,919
EXPENDITURES			
Current			
General government	450	-	-
Debt service			
Principal	30,000	15,000	-
Interest and fees	1,800	2,869	-
Bond issuance costs	-	-	-
TOTAL EXPENDITURES	32,250	17,869	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(21,382)	(533)	38,919
OTHER FINANCING SOURCES (USES)			
Transfers in	20,000	-	10,000
Bonds issued	-	-	-
Premium on bonds issued	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	20,000	-	10,000
NET CHANGE IN FUND BALANCES	(1,382)	(533)	48,919
FUND BALANCES, JANUARY 1	32,265	16,203	-
FUND BALANCES, DECEMBER 31	\$ 30,883	\$ 15,670	\$ 48,919

360 2014A & B G.O. Improvement Bonds	499 2004B G.O. PIR Refunding Bonds	Totals	
		2014	2013
\$ 37,788	\$ 19,611	\$ 78,961	\$ 56,687
2,208,295	11,591	2,265,294	38,782
75	3	81	24
-	-	150	-
<u>2,246,158</u>	<u>31,205</u>	<u>2,344,486</u>	<u>95,493</u>
-	450	900	1,714
-	30,000	75,000	210,000
-	3,075	7,744	15,551
<u>143,721</u>	<u>-</u>	<u>143,721</u>	<u>-</u>
<u>143,721</u>	<u>33,525</u>	<u>227,365</u>	<u>227,265</u>
<u>2,102,437</u>	<u>(2,320)</u>	<u>2,117,121</u>	<u>(131,772)</u>
-	-	30,000	34,289
100,410	-	100,410	-
54,503	-	54,503	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,880)</u>
<u>154,913</u>	<u>-</u>	<u>184,913</u>	<u>(66,591)</u>
2,257,350	(2,320)	2,302,034	(198,363)
<u>-</u>	<u>51,794</u>	<u>100,262</u>	<u>298,625</u>
<u>\$ 2,257,350</u>	<u>\$ 49,474</u>	<u>\$ 2,402,296</u>	<u>\$ 100,262</u>

CITY OF MADISON LAKE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS -
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Total		Percent Increase (Decrease)	
	2014	2013		
REVENUES				
Taxes	\$ 511,186	\$ 462,521	10.52	%
Special assessments	2,284,874	50,953	4,384.28	
Licenses and permits	49,316	20,458	141.06	
Intergovernmental	244,745	185,449	31.97	
Charges for services	105,647	110,220	(4.15)	
Fines and forfeits	16,555	11,962	38.40	
Investment earnings	7,710	1,822	323.16	
Miscellaneous	44,189	106,178	(58.38)	
	<u>\$ 3,264,222</u>	<u>\$ 949,563</u>	243.76	%
TOTAL REVENUES				
Per Capita	\$ 2,922	\$ 902	224.06	%
EXPENDITURES				
Current				
General government	\$ 157,099	\$ 150,234	4.57	%
Public safety	292,810	232,076	26.17	
Streets and highways	128,271	103,121	24.39	
Culture and recreation	12,537	10,223	22.64	
Economic development	17,814	6,532	172.72	
Miscellaneous	16,843	811	1,976.82	
Capital outlay				
General government	14,874	8,792	69.18	
Public safety	11,451	98,285	(88.35)	
Streets and highways	3,296,976	697,516	372.67	
Culture and recreation	-	9,352	N/A	
Economic development	3,758	250	1,403.20	
Debt service				
Principal	75,000	210,000	(64.29)	
Interest and other charges	7,744	15,551	(50.20)	
Bond issuance costs	143,721	-	N/A	
	<u>\$ 4,178,898</u>	<u>\$ 1,542,743</u>	170.87	%
TOTAL EXPENDITURES				
Per Capita	\$ 3,741	\$ 1,465	155.35	%
Total long-term indebtedness	\$ 4,981,306	\$ 225,000	2,113.91	%
Per Capita	4,460	214	1,987.06	
General fund balance - December 31	\$ 956,595	\$ 795,780	20.21	%
Per Capita	856	756	13.32	

The purpose of this report is to provide a summary of financial information concerning the City of Madison Lake to interested citizens. The complete financial statements may be examined at City Hall, 525 Main Street, PO Box 225, Madison Lake, MN, 56063. Questions about this report should be directed to Ari Klugman at (507) 243-3011.

OTHER REQUIRED REPORTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Madison Lake, 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 financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated May 21, 2015.

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

In connection with our audit, nothing came to our attention that caused us to believe 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.

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
May 21, 2015



INDEPENDENT AUDITOR'S 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 City Council
City of Madison Lake, 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 Madison Lake, Minnesota (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 21, 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 Responses, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2014-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a 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 the deficiencies described in the accompanying Schedule of Findings and Responses as items 2014-001 and 2014-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 tests 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 Responses. 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 results 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.

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
May 21, 2015

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding

Description

2014-001

Segregation of duties

Condition: During our audit, we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investment transactions and found the City to have limited segregation of duties in these areas.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Effect: The existence of this limited segregation of duties increases the risk of fraud.

Internal control over payroll

Cause: As a result of the small number of staff, the Deputy Clerk controls and maintains the check stock, sets up employee records, posts activity to the general ledger, prepares payroll tax returns, and maintains the payroll records.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. We recommend that in addition to approving payroll disbursements and wage rates, the City Council review amounts earned and accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals. Additional controls might include review of payroll registers, earnings records, payroll reports, etc.

Management response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of payroll registers, earnings records and payroll reports by the City Administrator.

Updated progress since prior year:

There is no change in this finding.

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding

Description

2014-001

Segregation of duties - Continued

Internal control over disbursements

Cause: As a result of the small number of staff, the Deputy Clerk controls and maintains the check stock, sets up vendors, opens the mail, prepares checks, maintains the purchase journal and accounts payable records, and posts transactions to the general ledger.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that an individual separate from the Deputy Clerk review cancelled checks received with the bank statement and investigate items such as; void checks, inconsistencies in check sequence, possible alterations, and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the Council is aware of this condition and monitor all financial information.

Management response:

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated progress since prior year:

There is no change in this finding.

Internal control over cash receipts

Cause: As a result of the small number of staff, the Deputy Clerk sets up customers, maintains receipts journal and accounts receivable records, posts transactions to the general ledger, receives and endorses checks and currency, and prepares the deposit.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. Additional controls might include obtaining and reviewing monthly receipt information.

Management response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of deposits and regular review of financial statements and budget comparisons.

Updated progress since prior year:

There is no change in this finding.

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding

Description

2014-001

Segregation of duties - Continued

Internal control over utility billing

Cause: As a result of the small number of staff, the Deputy Clerk approves new accounts, sets up customers and rates in the billing system, generates statements, enters readings, prepares the deposit and makes adjustments to accounts.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitors all financial information. Additional controls might include reviewing billing registers, exception reports, adjustments to accounts and employee billing records.

Management response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons. The City has implemented online utility bill pay which reduced the risk to the City.

Updated progress since prior year:

There is no change in this finding.

Internal control over investment transactions

Cause: As a result of the small number of staff, the City Administrator receives investment statements in the mail, initiates transactions, maintains investment sub ledgers, and reconciles investment accounts.

Recommendation: While we recognize staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. We recommend the City adopt an investment policy which outlines procedures for investment transactions that can be followed by the City Administrator.

Management response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated progress since prior year:

There is no change in this finding.

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Finding</u>	<u>Description</u>
2014-002	Financial report preparation
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Banyon receipt and disbursement information to the amount reported in the financial statements plus or minus any applicable accruals.
<i>Management response:</i>	For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

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CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Finding</u>	<u>Description</u>
2014-003	Material accounting/audit adjustments
<i>Condition:</i>	During our audit, adjustments were needed to record numerous accounting and audit adjustments, including some material.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.
<i>Effect:</i>	This indicates that it would be likely that a misstatement may occur and not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.
<i>Management response:</i>	<p>The City will review all adjusting entries posted this year and make as many adjustments as possible in the future. The Deputy City Clerk will continue to monitor all financial activity and adjust account balances as needed throughout the year and at year end to prevent material misstatements from occurring.</p>