

**CITY OF MADISON LAKE, MINNESOTA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**



# CITY OF MADISON LAKE, MINNESOTA

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**CITY OF MADISON LAKE, MINNESOTA**

**INTRODUCTORY SECTION**

**DECEMBER 31, 2017**

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**CITY OF MADISON LAKE, MINNESOTA**

**CITY OFFICIALS**

**December 31, 2017**

Ken Reichel

Mayor

Laurinda Sohre

Council

Carolyn Hiniker

Council

Kent Hoehn

Council

Pat Burt

Council

Curt Kephart

City Administrator  
and Clerk

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**CITY OF MADISON LAKE, MINNESOTA**

**FINANCIAL SECTION**

**DECEMBER 31, 2017**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the 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 as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Madison Lake, Minnesota as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 and the required supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madison Lake, Minnesota's basic financial statements. The introductory section and combining, individual non-major fund financial statements and the supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the supplemental information 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 nonmajor fund financial statements and the supplemental information 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 them.

*Report on Summarized Comparative Information*

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statement for the year ended December 31, 2016, from which such partial information was derived.

The City's 2016 financial statements were audited by other auditors whose reported dated September 26, 2017, expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

**Honorable Mayor and Members  
of the City Council**  
Page Three

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018, on our consideration of the City of Madison Lake, Minnesota'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 solely 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 effectiveness of 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 City of Madison Lake, Minnesota's internal control over financial reporting and compliance.

*Smith, Schafu and Associates, Ltd.*

Rochester, Minnesota  
June 25, 2018

## **CITY OF MADISON LAKE, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Madison Lake, Minnesota, 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, 2017.

### **FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the City of Madison Lake exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$13,237,864 (net position). Of this amount, \$1,437,129 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$157,084 as compared to an increase of \$490,690 in the previous year. The governmental activities decreased by \$250,501 and the business type activities increased by \$93,417.
- As of the close of the current fiscal year, the City of Madison Lake's governmental funds reported combined ending fund balances of \$5,408,604, a decrease of \$85,332 in comparison with the prior year. The majority of the governmental funds decrease was due an increase in professional service and police protection expenditures.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City of Madison Lake's basic financial statements. The City's basic financial statements comprise three components:

- 1) Government-wide financial statements, providing information for the City as a whole.
- 2) Fund financial statements, providing detailed information for the City's significant funds.
- 3) Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. Additional explanation of these sections of the financial statement are as follows.

**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.

## CITY OF MADISON LAKE, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

The *statement of net position* presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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, economic development, and culture and recreation. 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 15 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 seventeen individual governmental funds. 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, Fire fund, 2014A/B Improvement fund, 2016A Improvement fund, 2014 Construction fund, 2015 Construction fund, and the Public Works Construction fund all of which are considered to be major funds. Data from the ten 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.

**CITY OF MADISON LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 18 of this report.

**Proprietary funds.** The City maintains one type of proprietary fund - enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water 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 29 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential for 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 33 of this report.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Madison Lake's share of net pension liabilities for defined benefit plans and schedules of contributions. The required supplementary information can be found on page 64 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 67 of this report.

**CITY OF MADISON LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Government-wide Financial Analysis**

As noted earlier, net position may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$13,237,864 at the close of the most recent fiscal year.

A significant portion of the City's net position (38 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 Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 8,678,664	9,210,270	\$ 1,075,403	\$ 1,220,328	\$ 9,754,067	\$ 10,430,598
Capital assets	8,388,405	7,928,227	6,652,925	6,844,468	15,041,330	14,772,695
Total assets	<u>17,067,069</u>	<u>17,138,497</u>	<u>7,728,328</u>	<u>8,064,796</u>	<u>24,795,397</u>	<u>25,203,293</u>
Deferred outflows of resources	159,918	433,871	14,993	36,176	174,911	470,047
Long-term liabilities outstanding	6,739,210	6,858,365	4,515,777	4,793,552	11,254,987	11,651,917
Other liabilities	236,492	280,079	80,767	242,969	317,259	523,048
Total liabilities	<u>6,975,702</u>	<u>7,138,444</u>	<u>4,596,544</u>	<u>5,036,521</u>	<u>11,572,246</u>	<u>12,174,965</u>
Deferred inflows of resources	149,681	81,819	10,517	21,608	160,198	103,427
Net position:						
Net investment in capital assets	1,929,768	2,069,988	3,081,814	3,100,194	5,011,582	5,170,182
Restricted	6,730,225	6,820,205	58,928	58,459	6,789,153	6,878,664
Unrestricted	1,441,611	1,461,912	(4,482)	(115,810)	1,437,129	1,346,102
Total net position	<u>\$ 10,101,604</u>	<u>\$ 10,352,105</u>	<u>\$ 3,136,260</u>	<u>\$ 3,042,843</u>	<u>\$ 13,237,864</u>	<u>\$ 13,394,948</u>

An additional portion of the City's net position (51 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (11 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 balance of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

**CITY OF MADISON LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Governmental activities.** Governmental activities decreased the City's net position by \$250,501.

**Business-type activities.** Business-type activities increased the City's net position by \$93,417.

The following graphs depict a condensed version of the Statement of Activities:

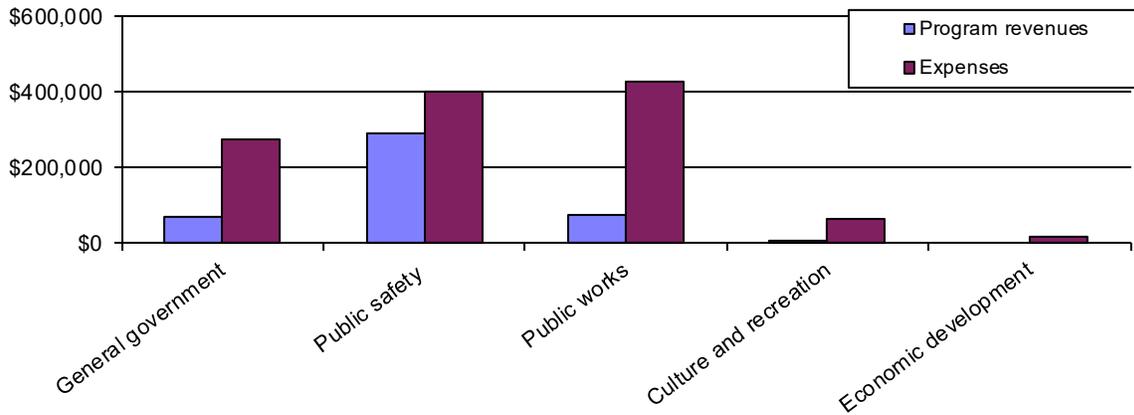
**City of Madison Lake's Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue:						
Program revenues:						
Charges for services	\$ 336,211	\$ 239,306	\$ 654,822	\$ 675,108	\$ 991,033	\$ 914,414
Operating grants and contributions	57,154	53,823			57,154	53,823
Capital grants and contributions	44,392	750,308	64,267	51,817	108,659	802,125
General revenues:						
Property taxes	611,603	542,498			611,603	542,498
Tax increments	42,075	28,683			42,075	28,683
Other taxes	5,083	13,343			5,083	13,343
Grants and contributions not restricted to specific programs					674	157,433
Local government aid	158,031	157,433				
Small city assistance	674	100				
Investment earnings	10,645	8,643	2,121	1,636	12,766	10,279
Other	60,953	9,381			63,074	9,381
Total revenues	<u>1,326,821</u>	<u>1,803,518</u>	<u>721,210</u>	<u>728,561</u>	<u>1,892,121</u>	<u>2,531,979</u>
Expenses:						
General government	275,855	149,006			275,855	149,006
Public safety	401,647	505,283			401,647	505,283
Public works	429,553	270,224			429,553	270,224
Culture and recreation	65,199	46,952			65,199	46,952
Economic development	17,258	51,410			17,258	51,410
Miscellaneous		31,338				31,338
Interest on long-term debt	222,093	201,960			222,093	31,338
Water			268,084	244,105	268,084	244,105
Sewer			436,065	436,774	436,065	436,774
Refuse			89,361	104,337	89,361	104,337
Total expenses	<u>1,411,605</u>	<u>1,256,173</u>	<u>793,510</u>	<u>785,216</u>	<u>2,205,115</u>	<u>1,870,767</u>
Increase (decrease) in net position before transfers	(84,784)	547,345	(72,300)	(56,655)	(157,084)	490,690
Transfers	(165,717)	31,637	165,717	(31,637)		
Increase (Decrease) in net position	<u>(250,501)</u>	<u>578,982</u>	<u>93,417</u>	<u>(88,292)</u>	<u>(157,084)</u>	<u>490,690</u>
Net position, beginning of year	10,352,105	9,773,123	3,042,843	3,131,135	13,394,948	12,904,258
Net position, end of year	<u>\$ 10,101,604</u>	<u>\$ 10,352,105</u>	<u>\$ 3,136,260</u>	<u>\$ 3,042,843</u>	<u>\$ 13,237,864</u>	<u>\$ 13,394,948</u>

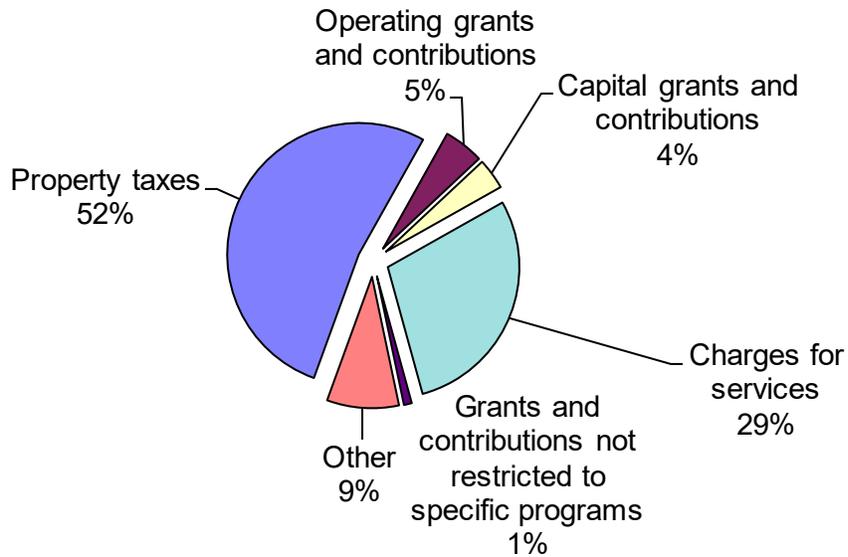
**CITY OF MADISON LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by the property tax levy or general state aid.

**Expenses and Program Revenues - Governmental Activities**



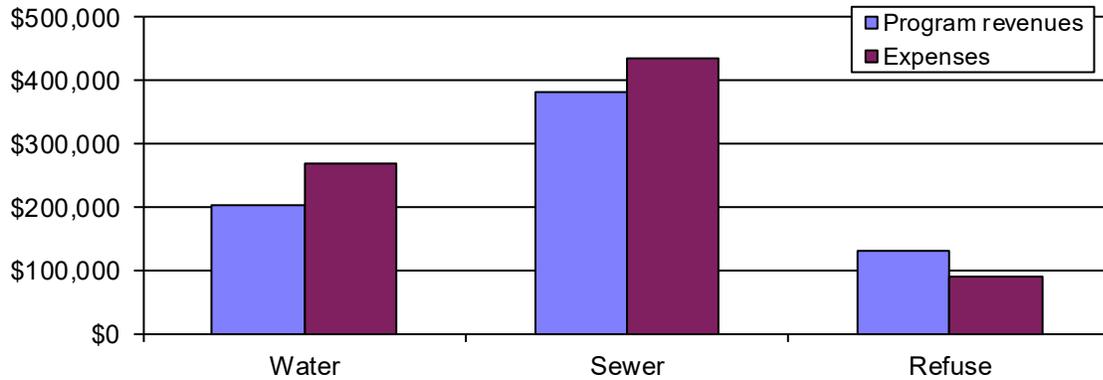
**Revenues by Source - Governmental Activities**



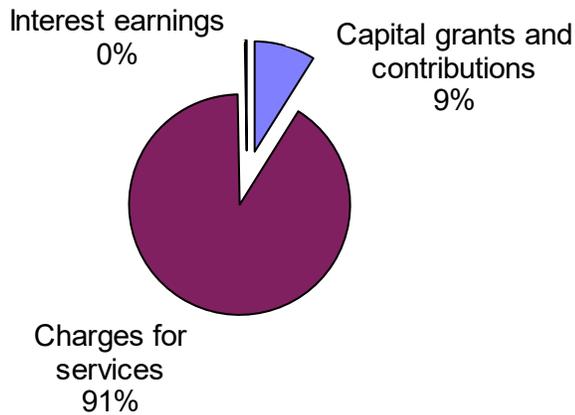
**CITY OF MADISON LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenses. Since all of these activities require significant physical assets to operate, any excess revenues are held for planned capital expenses to keep pace with growing demand for services.

**Expenses and Program Revenues - Business-Type Activities**



**Revenues by Source - Business-Type Activities**



# CITY OF MADISON LAKE, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

## 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.

Fund balance is classified as non-spendable, restricted, committed, assigned or unassigned according to the following definitions:

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,408,604, a decrease of \$85,332 in comparison with the prior year. There is a negative unassigned fund balance of \$201,105 due to the 2014 Construction fund and CSAH 26 Reconstruction with fund balance deficits of \$538,508 and \$261,494 respectively. The remainder of fund balance is not available for new spending because it is either 1) restricted \$3,850,047, or 2) assigned \$1,759,662 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 \$1,009,852. 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 121 percent of fund expenditures, while unassigned fund balance represents 72 percent of fund expenditures.

The fund balance of the City's *General fund* decreased by \$77,898 during the current fiscal year. The key factor in this decrease was due to an increase in capital outlay expenditures and transfers.

The *Fire fund* has a total fund balance of \$735,921. The net increase in fund balance during the current year in the Fire fund was \$53,972. The key factor in this increase was due to a transfer from the General fund for the Fire fund's operating budget.

The *Debt Service fund* has a total fund balance of \$3,340,339, 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 \$211,388. The key factor of this increase was due to special assessments associated with the Annexation and the 2016 Street and Utility Improvements Project.

The *2015 Construction fund* fund balance decreased by \$349,171 during the current fiscal year. The key factor in this decrease was due to the bonds issued in prior year and spent in current year.

**CITY OF MADISON LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The Enterprise funds reported a net deficit in unrestricted net position of \$4,482. The total increase in net position for the funds was \$93,417. 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. Revenues exceeded expectations by \$195,908, and expenditures were over budget by \$145,193.

**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, 2017, amounts to \$15,041,330 (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 2 percent increase (a 6 percent increase for governmental activities and a 3 percent decrease for business-type activities).

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 405,357	\$ 405,357	\$ 47,313	\$ 47,313	\$ 452,670	\$ 452,670
Construction in process	708,859	1,046,190		1,498,409	708,859	2,544,599
Improvements other than buildings	16,017	18,518			16,017	18,518
Buildings	123,749	148,106			123,749	148,106
Infrastructure	6,879,621	6,116,629	6,587,386	5,277,820	13,467,007	11,394,449
Machinery and equipment	158,702	111,616	18,226	20,926	176,928	132,542
Vehicles	96,100	81,811			96,100	81,811
Total	<u>\$ 8,388,405</u>	<u>\$ 7,928,227</u>	<u>\$ 6,652,925</u>	<u>\$ 6,844,468</u>	<u>\$ 15,041,330</u>	<u>\$ 14,772,695</u>

Additional information on the City's capital assets can be found in Note 5 starting on page 45 of this report.

**CITY OF MADISON LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$12,333,699. Of this amount, \$6,376,071 is special assessment debt and \$3,548,588 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		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 6,376,071	\$ 6,197,114	\$	\$	\$ 7,945,000	\$ 7,800,000
G.O. revenue bonds			1,568,929	1,602,886	1,568,929	1,602,886
Revenue notes			1,979,659	2,080,076	1,979,659	2,080,076
Loans payable			840,111	941,839	840,111	941,839
Total	<u>\$ 6,376,071</u>	<u>\$ 6,197,114</u>	<u>\$ 4,388,699</u>	<u>\$ 4,624,801</u>	<u>\$ 12,333,699</u>	<u>\$ 12,424,801</u>

The City's total debt decreased by \$91,102, or 1 percent during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 6 starting on page 47 of this report.

**CITY OF MADISON LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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 3.2 percent a year ago. This compares favorably to the State's average unemployment rate of 3.3 percent and the national average rate of 4.1 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 2017 fiscal year.

**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.

**CITY OF MADISON LAKE, MINNESOTA**

**BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

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**CITY OF MADISON LAKE, MINNESOTA**  
**STATEMENT OF NET POSITION**

December 31, 2017

*With Comparative Totals for December 31, 2016*

	Governmental Activities	Business-Type Activities	Totals	
			2017	2016
<b>ASSETS</b>				
Cash and investments	\$ 5,445,422	\$ 936,037	\$ 6,381,459	\$ 6,620,927
Receivables	3,031,678	139,366	3,171,044	3,653,763
Due from other governmental units	26,827		26,827	30,356
Pension asset	174,737		174,737	125,552
Capital assets:				
Nondepreciable	1,114,216	47,313	1,161,529	2,997,269
Depreciable, net	7,274,189	6,605,612	13,879,801	11,775,426
<b>Total Assets</b>	<b>17,067,069</b>	<b>7,728,328</b>	<b>24,795,397</b>	<b>25,203,293</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows from pension activity	159,918	14,993	174,911	470,047
<b>LIABILITIES</b>				
Accounts payable	134,851	7,332	142,183	363,175
Due to other governments				10,755
Accrued liabilities	6,318	3,276	9,594	7,204
Accrued interest payable	86,845	61,723	148,568	130,996
Customer deposits payable		8,436	8,436	6,866
Compensated absences	8,478	3,862	12,340	4,052
Noncurrent liabilities				
Due within one year	300,101	261,322	561,423	457,843
Due in more than one year	6,158,536	4,149,899	10,308,435	10,525,743
Net pension liability	280,573	100,694	381,267	668,331
<b>Total Liabilities</b>	<b>6,975,702</b>	<b>4,596,544</b>	<b>11,572,246</b>	<b>12,174,965</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows from pension activity	149,681	10,517	160,198	103,427
<b>NET POSITION</b>				
Net investment in capital assets	1,929,768	3,081,814	5,011,582	5,170,182
Restricted for:				
Debt service	6,267,736		6,267,736	6,400,139
Infrastructure		58,928	58,928	58,459
Farmers market	3,251		3,251	3,151
Economic development	456,573		456,573	415,363
Community service	2,665		2,665	1,552
Unrestricted	1,441,611	(4,482)	1,437,129	1,346,102
<b>Total Net Position</b>	<b>\$ 10,101,604</b>	<b>\$ 3,136,260</b>	<b>\$ 13,237,864</b>	<b>\$ 13,394,948</b>

**See Notes to Financial Statements**

**CITY OF MADISON LAKE, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2017  
With Comparative Totals for the Year Ended December 31, 2016

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government	\$ 275,855	\$ 14,270	\$ 56,154	\$
Public safety	401,647	289,033		
Public works	429,553	32,908	600	44,392
Culture and recreation	65,199		400	
Economic development	17,258			
Miscellaneous				
Interest on long-term debt	222,093			
<b>Total governmental activities</b>	<b>1,411,605</b>	<b>336,211</b>	<b>57,154</b>	<b>44,392</b>
<b>Business-Type activities:</b>				
Water	268,084	198,370		4,897
Sewer	436,065	324,111		59,370
Refuse	89,361	132,341		
<b>Total business-type activities</b>	<b>793,510</b>	<b>654,822</b>		<b>64,267</b>
<b>Total</b>	<b>\$ 2,205,115</b>	<b>\$ 991,033</b>	<b>\$ 57,154</b>	<b>\$ 108,659</b>

General revenues:  
General property taxes  
Tax increments  
Other taxes  
Grants and contributions not restricted to specific programs:  
Local government aid  
Small city assistance  
Interest earnings  
Miscellaneous  
Transfers  
Total general revenues

Change in net position

Net position - beginning

Net position - ending

**See Notes to Financial Statements**

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals 2017	2016
\$ (205,431)	\$	\$ (205,431)	\$ (133,266)
(112,614)		(112,614)	(253,087)
(351,653)		(351,653)	503,095
(64,799)		(64,799)	(46,197)
(17,258)		(17,258)	(49,983)
			(31,338)
(222,093)		(222,093)	(201,960)
(973,848)		(973,848)	(212,736)
	(64,817)	(64,817)	(30,064)
	(52,584)	(52,584)	(61,233)
	42,980	42,980	33,006
	(74,421)	(74,421)	(58,291)
(973,848)	(74,421)	(1,048,269)	(271,027)
611,603		611,603	438,748
42,075		42,075	103,023
5,083		5,083	42,753
158,031		158,031	157,433
11,319		11,319	100
10,645	2,121	12,766	10,279
50,308		50,308	9,381
(165,717)	165,717		
723,347	167,838	891,185	761,717
(250,501)	93,417	(157,084)	490,690
10,352,105	3,042,843	13,394,948	12,904,258
<u>\$ 10,101,604</u>	<u>\$ 3,136,260</u>	<u>\$ 13,237,864</u>	<u>\$ 13,394,948</u>

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**CITY OF MADISON LAKE, MINNESOTA**

**FUND FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

**CITY OF MADISON LAKE, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2017  
*With Comparative Totals for December 31, 2016*

	<u>100</u>	Special Revenue <u>120</u>	Debt Service	
	General	Fire	<u>360/361</u> 2014A/B Improvement	<u>362</u> 2016A Improvement
<b>ASSETS</b>				
Cash and investments	\$ 238,508	\$ 699,865	\$ 3,005,403	\$ 269,818
Accounts receivable	3,668	16,935		
Taxes receivable delinquent	8,220			
Special assessments receivable:				
Deferred			2,428,391	439,558
Delinquent			3,469	673
Loan receivable				
Due from other funds	799,168			
Due from other governmental units	6,004	20,041	743	36
<b>TOTAL ASSETS</b>	<u>\$ 1,055,568</u>	<u>\$ 736,841</u>	<u>\$ 5,438,006</u>	<u>\$ 710,085</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable	\$ 31,255	\$ 843	\$	\$ 500
Accrued expenses	6,241	77		
Due to other funds				
Due to other governmental units				
<b>Total Liabilities</b>	<u>37,496</u>	<u>920</u>	<u></u>	<u>500</u>
<b>Deferred Inflows of Resources</b>				
Unavailable:				
Delinquent property taxes	8,220			
Special assessments			2,431,860	440,231
<b>Total Deferred Inflow s of Resources</b>	<u>8,220</u>	<u></u>	<u>2,431,860</u>	<u>440,231</u>
<b>Fund Balance</b>				
Restricted:				
Creditors			3,006,146	269,354
Community service				
Farmer's market				
Economic development				
Capital outlay				
Assigned	410,955	735,921		
Unassigned	598,897			
<b>Total Fund Balance</b>	<u>1,009,852</u>	<u>735,921</u>	<u>3,006,146</u>	<u>269,354</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<u>\$ 1,055,568</u>	<u>\$ 736,841</u>	<u>\$ 5,438,006</u>	<u>\$ 710,085</u>

**See Notes to Financial Statements**

Capital Projects			Other Governmental Funds	Total Governmental Funds	
<u>414</u> 2014 Construction	<u>415</u> 2015 Construction	<u>420</u> Public Works Construction		2017	2016
\$	\$ 81,888	\$ 143,652	\$ 1,006,288	\$ 5,445,422	\$ 5,563,262
			1,435	22,038	36,079
			2,393	10,613	11,610
			71,450	2,939,399	3,386,835
				4,142	
			55,486	55,486	56,576
				799,168	
			3	26,827	30,356
<u>\$</u>	<u>\$ 81,888</u>	<u>\$ 143,652</u>	<u>\$ 1,137,055</u>	<u>\$ 9,303,095</u>	<u>\$ 9,084,718</u>
\$ 834	\$ 4,986	\$ 96,433	\$	\$ 134,851	\$ 182,039
				6,318	7,058
537,674			261,494	799,168	
					3,240
<u>538,508</u>	<u>4,986</u>	<u>96,433</u>	<u>261,494</u>	<u>940,337</u>	<u>192,337</u>
				2,393	11,610
				71,450	3,386,835
				73,843	3,398,445
				64,839	3,129,001
				2,665	1,552
				3,251	3,151
				456,573	415,363
		47,219		47,219	426,073
	76,902			1,759,662	1,607,677
(538,508)			535,884	(201,105)	(88,881)
(538,508)	76,902	47,219	(261,494)	(201,105)	(88,881)
			801,718	5,408,604	5,493,936
<u>\$</u>	<u>\$ 81,888</u>	<u>\$ 143,652</u>	<u>\$ 1,137,055</u>	<u>\$ 9,303,095</u>	<u>\$ 9,084,718</u>

**CITY OF MADISON LAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2017

*With Comparative Totals for the Year Ended December 31, 2016*

	<u>100</u>	<u>Special Revenue</u> <u>120</u>	<u>Debt Service</u>	
	General	Fire	<u>360/361</u> 2014A/B Improvement	<u>362</u> 2016A Improvement
<b>REVENUES</b>				
General property taxes	\$ 479,918	\$	\$ 41,391	\$ 50,000
Tax increment				
Franchise fees	15,658			
Special assessments			389,938	99,330
Licenses and permits	98,628			
Intergovernmental revenues	195,462			
Charges for services	1,346	138,543		
Fines and forfeits	49,885			
Investment income	2,557	602		
Miscellaneous revenues	40,604	36,673		
<b>Total Revenues</b>	<b>884,058</b>	<b>175,818</b>	<b>431,329</b>	<b>149,330</b>
<b>EXPENDITURES</b>				
General government	201,341		3,212	
Public safety	283,895	121,307		
Public works	105,560			
Culture and recreation	43,564			
Economic development	13,477			
Unallocated	8,952			
Debt service:				
Principal			156,043	
Interest and fiscal charges			190,974	20,819
Capital outlay	180,247	27,942		
<b>Total Expenditures</b>	<b>837,036</b>	<b>149,249</b>	<b>350,229</b>	<b>20,819</b>
Excess (deficiency) of revenues over (under) expenditures	47,022	26,569	81,100	128,511
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds				
Transfers in	45,000	47,403		
Transfers out	(169,920)	(20,000)		
<b>Total other financing sources (uses)</b>	<b>(124,920)</b>	<b>27,403</b>		
Net change in fund balances	(77,898)	53,972	81,100	128,511
Fund Balance - beginning	1,087,750	681,949	2,925,046	140,843
Fund Balance - ending	<b>\$ 1,009,852</b>	<b>\$ 735,921</b>	<b>\$ 3,006,146</b>	<b>\$ 269,354</b>

**See Notes to Financial Statements**

Capital Projects			Other Governmental Funds	Total Governmental Funds	
<u>414</u> 2014 Construction	<u>415</u> 2015 Construction	<u>420</u> Public Works Construction		2017	2016
\$	\$	\$ 25,000	\$ 15,294	\$ 611,603	\$ 540,251
			42,075	42,075	28,683
				15,658	9,564
			2,560	491,828	591,980
				98,628	45,807
				195,462	207,884
			1,435	141,324	122,126
			1,021	50,906	40,611
	6,465		17,024	26,648	8,643
				77,277	42,066
	6,465	25,000	79,409	1,751,409	1,637,615
			600	205,153	130,659
				405,202	350,695
				105,560	142,494
				43,564	30,473
			1,721	15,198	50,921
				8,952	31,338
			15,000	171,043	174,192
			956	212,749	182,540
30,197	144,919	458,358		841,663	966,185
30,197	144,919	458,358	18,277	2,009,084	2,059,497
(30,197)	(138,454)	(433,358)	61,132	(257,675)	(421,882)
		338,060		338,060	1,503,146
		142,517		234,920	176,818
	(210,717)			(400,637)	(145,181)
	(210,717)	480,577		172,343	1,534,783
(30,197)	(349,171)	47,219	61,132	(85,332)	1,112,901
(508,311)	426,073		740,586	5,493,936	4,381,035
\$ (538,508)	\$ 76,902	\$ 47,219	\$ 801,718	\$ 5,408,604	\$ 5,493,936

**CITY OF MADISON LAKE, MINNESOTA**  
**RECONCILIATION OF NET POSITION IN THE**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES**  
**IN THE FUND BASIS FINANCIAL STATEMENTS**  
December 31, 2017

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

Total governmental fund balances (page 18)		\$ 5,408,604
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$12,225,747	
Less: Accumulated depreciation	<u>(3,837,342)</u>	8,388,405
Some receivables are not available soon enough to pay for current period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes	\$ 10,613	
Deferred and delinquent special assessments	<u>2,943,541</u>	2,954,154
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (6,376,071)	
Unamortized bond premium, net	(82,566)	
Net pension liability	(95,599)	
Compensated absences	(8,478)	
Accrued interest	<u>(86,845)</u>	<u>(6,649,559)</u>
Net position of governmental activities (page 14)		<u><u>\$10,101,604</u></u>

**CITY OF MADISON LAKE, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2017

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

Net change in fund balances - total governmental funds (page 20)	\$	(85,332)
<p>Governmental funds reported capital outlays as expenditures.  However, in the statement of activities the cost of those assets  is allocated over their estimated useful lives and reported as  depreciation expense.</p>		
Capital outlay	\$ 895,957	
Loss on disposal of capital assets	(2,524)	
Depreciation expense	<u>(433,255)</u>	460,178
<p>Certain revenues in the statement of activities do not provide current  financial resources are not reported as revenues in the funds.</p>		
Property taxes	\$ (997)	
Special assessments	<u>(443,294)</u>	(444,291)
<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, December 31, 2017	\$ (8,478)	
Compensated absences, December 31, 2016	<u>9,110</u>	632
<p>Bond proceeds provide current financial resources to governmental  funds, but issuing debt increases long-term liabilities in the  statement of net position. Repayment of bond principal is an  expenditure in the governmental funds, but the repayment  reduces long-term liabilities in the statement of net position.</p>		
Change in accrued interest	\$ 897	
Amortization of bond premium	4,632	
Change in net pension liability	(8,260)	
Proceeds from issuance of bonds	(350,000)	
Principal retirement on long-term debt	<u>171,043</u>	<u>(181,688)</u>
Change in net position of governmental activities (pages 15 and 16)	\$	<u><u>(250,501)</u></u>

**See Notes to Financial Statements**

**CITY OF MADISON LAKE, MINNESOTA**  
**GENERAL FUND**  
**STATEMENTS OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2017  
*With Comparative Totals for the Year Ended December 31, 2016*

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
<b>Taxes</b>					
Property	\$ 438,740	\$ 438,740	\$ 479,918	\$ 41,178	\$ 433,449
Tax increment					12
Franchise	13,500	13,500	15,658	2,158	9,564
Gambling					872
Total Taxes	452,240	452,240	495,576	43,336	443,897
<b>Licenses and Permits</b>					
Business	21,150	21,150	93,024	71,874	40,418
Nonbusiness	5,000	5,000	5,604	604	5,389
Total Licenses and Permits	26,150	26,150	98,628	72,478	45,807
<b>Intergovernmental Revenues</b>					
Local government aid	157,533	157,533	158,031	498	157,533
Small city assistance			11,319	11,319	
Other state aid	8,395	8,395	25,512	17,117	18,497
Other State/Federal grant	660	660	600	(60)	8,938
Total Intergovernmental Revenues	166,588	166,588	195,462	28,874	184,968
<b>Charges For Services</b>					
Township fire contributions	2,808	2,808	1,340	(1,468)	3,460
Other	20	20	6	(14)	16
Total Charges For Services	2,828	2,828	1,346	(1,482)	3,476
<b>Fines and Forfeits</b>					
Court fines	30,500	30,500	49,885	19,385	40,611
<b>Investment Income</b>					
	4,500	4,500	2,557	(1,943)	6,531
<b>Miscellaneous Revenues</b>					
Fire department contribution	2,100	2,100	1,335	(765)	1,305
Other contributions			600	600	2,114
Other refunds and reimbursements	3,244	3,244	1,741	(1,503)	8,393
Other			36,928	36,928	7,149
Total Miscellaneous Revenues	5,344	5,344	40,604	35,260	18,961
<b>TOTAL REVENUES</b>	<b>\$ 688,150</b>	<b>\$ 688,150</b>	<b>\$ 884,058</b>	<b>\$ 195,908</b>	<b>\$ 744,251</b>

**See Notes to Financial Statements**

**CITY OF MADISON LAKE, MINNESOTA**  
**GENERAL FUND**  
**STATEMENTS OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2017  
*With Comparative Totals for the Year Ended December 31, 2016*

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>General Government</b>					
<b>Mayor and Council</b>					
Employee services	\$ 28,242	\$ 28,242	\$ 21,889	\$ 6,353	\$ 23,528
Supplies	1,500	1,500	695	805	4,216
Other services and charges	8,411	8,411	10,833	(2,422)	8,608
Total Mayor and Council	38,153	38,153	33,417	4,736	36,352
<b>Election</b>					
Employee services			418	(418)	447
Supplies					330
Other services and charges	250	250	250		250
Total Election	250	250	668	(418)	1,027
<b>City Administration</b>					
Employee services	15,687	15,687	19,440	(3,753)	21,499
Materials and supplies	5,500	5,500	5,110	390	6,408
Other charges	7,458	7,458	31,674	(24,216)	7,042
Capital outlay	12,000	12,000	7,901	4,099	16,611
Total City Administration	40,645	40,645	64,125	(23,480)	51,560
<b>Professional Services</b>					
Legal	8,000	8,000	3,259	4,741	5,063
Accounting and audit	16,000	16,000	23,630	(7,630)	15,470
Other	11,300	11,300	54,091	(42,791)	11,744
Total Professional Services	35,300	35,300	80,980	(45,680)	32,277
<b>Planning and Zoning</b>					
Employee services	16,368	16,368	10,071	6,297	6,848
Supplies	500	500		500	197
Other services and charges	600	600	20	580	94
Total Planning and Zoning	17,468	17,468	10,091	7,377	7,139
<b>Municipal Building</b>					
Supplies	8,200	8,200	4,532	3,668	4,220
Other services and charges	11,818	11,818	15,429	(3,611)	12,672
Total Municipal Building	20,018	20,018	19,961	57	16,892
Total General Government	\$ 151,834	\$ 151,834	\$ 209,242	\$ (57,408)	\$ 145,247

**See Notes to Financial Statements**

**CITY OF MADISON LAKE, MINNESOTA**  
**GENERAL FUND**  
**STATEMENTS OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2017  
*With Comparative Totals for the Year Ended December 31, 2016*

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Public Safety</b>					
<b>Police Protection</b>					
Employee services	\$ 176,570	\$ 176,570	\$ 221,667	\$ (45,097)	\$ 185,365
Supplies	14,828	14,828	17,734	(2,906)	15,815
Other	19,672	19,672	20,756	(1,084)	22,759
Capital outlay	13,800	13,800	60,446	(46,646)	14,101
Total Police Protection	224,870	224,870	320,603	(95,733)	238,040
<b>Building Inspection</b>					
Other charges	11,664	11,664	23,300	(11,636)	6,942
<b>Civil Defense</b>					
Other charges	300	300	308	(8)	289
<b>Animal Control</b>					
Other charges	400	400		400	9
<b>Rental Inspection</b>					
Other charges	3,000	3,000	130	2,870	400
Total Public Safety	240,234	240,234	344,341	(104,107)	245,680
<b>Public Works</b>					
<b>Highways, Streets and Alleys</b>					
Employee services	46,638	46,638	47,527	(889)	39,466
Materials and supplies	35,000	35,000	33,913	1,087	31,578
Other charges	13,542	13,542	3,060	10,482	14,936
Capital outlay	80,000	80,000	102,864	(22,864)	98,041
Total Highways Streets and Alleys	175,180	175,180	187,364	(12,184)	184,021
<b>Snow Removal</b>	8,000	8,000	2,684	5,316	3,176
<b>Street Lights</b>	14,974	14,974	18,376	(3,402)	20,508
Total Public Works	\$ 198,154	\$ 198,154	\$ 208,424	\$ (10,270)	\$ 207,705

**See Notes to Financial Statements**

**CITY OF MADISON LAKE, MINNESOTA**  
**GENERAL FUND**  
**STATEMENTS OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2017  
*With Comparative Totals for the Year Ended December 31, 2016*

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Culture and Recreation</b>					
<b>Parks</b>					
Employee services	\$ 22,493	\$ 22,493	\$ 27,403	\$ (4,910)	\$ 16,668
Materials and supplies	6,800	6,800	7,349	(549)	8,748
Contracted services	7,362	7,362	8,812	(1,450)	5,057
Capital outlay	35,000	35,000	8,380	26,620	7,551
Total Culture and Recreation	71,655	71,655	51,944	19,711	38,024
<b>Housing and Economic Development</b>					
Employee services	596	596	1,428	(832)	4,464
Materials and supplies	550	550	5,000	(4,450)	6
Other charges	14,020	14,020	7,049	6,971	6,633
Capital outlay	250	250	656	(406)	501
Total Housing and Economic Development	15,416	15,416	14,133	1,283	11,604
<b>Unallocated Expense</b>					
Miscellaneous	14,550	14,550	8,952	5,598	16,780
<b>TOTAL EXPENDITURES</b>	<b>691,843</b>	<b>691,843</b>	<b>837,036</b>	<b>(145,193)</b>	<b>665,040</b>
Excess (deficiency) of revenues over (under) expenditures	(3,693)	(3,693)	47,022	50,715	79,211
<b>Other Financing Sources (Uses)</b>					
Transfers in	45,000	45,000	45,000		45,000
Transfers out	(63,901)	(63,901)	(169,920)	(106,019)	(60,766)
Total other financing sources (uses)	(18,901)	(18,901)	(124,920)	(106,019)	(15,766)
Net change in fund balances	(22,594)	(22,594)	(77,898)	(55,304)	63,445
<b>FUND BALANCE - beginning</b>	<b>1,087,750</b>	<b>1,087,750</b>	<b>1,087,750</b>		<b>1,024,305</b>
<b>FUND BALANCE - ending</b>	<b>\$ 1,065,156</b>	<b>\$ 1,065,156</b>	<b>\$ 1,009,852</b>	<b>\$ (55,304)</b>	<b>\$ 1,087,750</b>

**See Notes to Financial Statements**

**CITY OF MADISON LAKE, MINNESOTA**  
**FIRE FUND**  
**STATEMENTS OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2017  
*With Comparative Totals for the Year Ended December 31, 2016*

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Charges for services	\$ 119,063	\$ 119,063	\$ 138,543	\$ 19,480	\$ 113,180
<b>Investment Income</b>	50	50	602	552	202
<b>Miscellaneous Revenues</b>					
Fire department contribution	26,060	26,060	36,673	10,613	28,039
<b>TOTAL REVENUES</b>	145,173	145,173	175,818	30,645	141,421
<b>EXPENDITURES</b>					
Employee services	27,482	27,482	22,205	5,277	26,807
Materials and supplies	49,715	49,715	47,931	1,784	38,396
Repairs and maintenance	15,000	15,000	17,068	(2,068)	21,343
Utilities	5,471	5,471	5,085	386	5,560
Insurance	5,803	5,803	2,478	3,325	4,646
Other charges	25,119	25,119	26,540	(1,421)	22,364
Capital outlay	74,800	74,800	27,942	46,858	15,379
Total Expenditures	203,390	203,390	149,249	54,141	134,495
Excess (deficiency) of revenues over (under) expenditures	(58,217)	(58,217)	26,569	84,786	6,926
<b>Other Financing Sources (Uses)</b>					
Transfers in	47,403	47,403	47,403		47,403
Transfers out			(20,000)	(20,000)	
Total other financing sources (use)	47,403	47,403	27,403	(20,000)	47,403
Net change in fund balances	(10,814)	(10,814)	53,972	64,786	54,329
Fund Balance - beginning			681,949	681,949	627,620
Fund Balance - ending	\$ (10,814)	\$ (10,814)	\$ 735,921	\$ 746,735	\$ 681,949

**See Notes to Financial Statements**

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**CITY OF MADISON LAKE, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
For the Year Ended December 31, 2017  
*With Comparative Totals for the Year Ended December 31, 2016*

	Business - Type Activities - Enterprise Funds				
	Water	Sewer	Refuse	Totals	
				2017	2016
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and investments	\$ 100,921	\$ 774,190	\$ 60,926	\$ 936,037	\$ 1,057,665
Accounts receivable	15,143	32,076	11,888	59,107	80,934
Special assessments receivable	1,075	37,002	694	38,771	39,664
Due from other governments	41,488			41,488	42,065
Total Current Assets	<u>158,627</u>	<u>843,268</u>	<u>73,508</u>	<u>1,075,403</u>	<u>1,220,328</u>
<b>Noncurrent Assets</b>					
Capital assets:					
Nondepreciable	35,471	11,842		47,313	1,545,722
Depreciable	4,721,624	6,461,165		11,182,789	9,629,149
Less: Accumulated depreciation	1,143,349	3,433,828		4,577,177	4,330,403
Total Capital Assets	<u>3,613,746</u>	<u>3,039,179</u>		<u>6,652,925</u>	<u>6,844,468</u>
Total Noncurrent Assets	<u>3,613,746</u>	<u>3,039,179</u>		<u>6,652,925</u>	<u>6,844,468</u>
<b>TOTAL ASSETS</b>	<u>3,772,373</u>	<u>3,882,447</u>	<u>73,508</u>	<u>7,728,328</u>	<u>8,064,796</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows from pension activity	6,721	6,657	1,615	14,993	36,176
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable	1,621	5,711		7,332	181,136
Due to other governments					7,515
Accrued expenses	1,251	1,251	774	3,276	4,198
Accrued interest	16,894	44,829		61,723	43,254
Customer deposits	8,436			8,436	6,866
Current maturities of bonds payable	131,695	60,204		191,899	164,374
Current maturities of note payable		69,423		69,423	101,727
Total Current Liabilities	<u>159,897</u>	<u>181,418</u>	<u>774</u>	<u>342,089</u>	<u>509,070</u>
<b>Noncurrent Liabilities</b>					
Bonds payable, net of current maturities and (premium)	2,188,504	1,190,708		3,379,212	3,579,900
Note payable, net of current maturities		770,687		770,687	840,111
Compensated absences payable	1,898	1,898	66	3,862	4,052
Net pension liability	44,784	44,784	11,126	100,694	103,388
Total Noncurrent Liabilities	<u>2,235,186</u>	<u>2,008,077</u>	<u>11,192</u>	<u>4,254,455</u>	<u>4,527,451</u>
<b>TOTAL LIABILITIES</b>	<u>2,395,083</u>	<u>2,189,495</u>	<u>11,966</u>	<u>4,596,544</u>	<u>5,036,521</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows from pension activity	4,678	4,678	1,161	10,517	21,608
<b>NET POSITION</b>					
Net investment in capital assets	1,293,547	1,788,267		3,081,814	3,100,194
Restricted for					
Infrastructure		58,928		58,928	58,459
Unrestricted	85,786	(152,264)	61,996	(4,482)	(115,810)
<b>TOTAL NET POSITION</b>	<u>\$ 1,379,333</u>	<u>\$ 1,694,931</u>	<u>\$ 61,996</u>	<u>\$ 3,136,260</u>	<u>\$ 3,042,843</u>

**See Notes to Financial Statements**

**CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUND  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN FUND NET POSITION**

For the Year Ended December 31, 2017

*With Comparative Totals for the Year Ended December 31, 2016*

	Business - Type Activities - Enterprise Funds				
	Water	Sewer	Refuse	Total	
				2017	2016
<b>Operating Revenues</b>					
Sales	\$ 198,370	\$ 324,111	\$ 132,341	\$ 654,822	\$ 684,847
<b>Operating Expenses</b>					
Employee services	38,615	37,765	7,355	83,735	90,147
Employee benefits and retirements	21,357	20,843	3,310	45,510	50,785
Materials and supplies	16,928	2,419	409	19,756	17,483
Repairs and maintenance	1,513	3,900		5,413	4,547
Utilities	12,734	21,417		34,151	32,628
Depreciation	100,156	146,618		246,774	281,079
Contracted services	5,904	1,996		7,900	1,005
Professional services	15,278			15,278	2,664
Other charges	4,355	130,559	78,287	213,201	215,644
Total Operating Expenses	216,840	365,517	89,361	671,718	695,982
Operating Income (Loss)	(18,470)	(41,406)	42,980	(16,896)	(11,135)
<b>Nonoperating Revenues (Expenses)</b>					
Interest income	1,398	723		2,121	1,636
Miscellaneous income	4,897	59,370		64,267	44,043
Interest expense	(51,244)	(70,548)		(121,792)	(91,199)
Total Nonoperating Revenues (Expenses)	(44,949)	(10,455)		(55,404)	(45,520)
<b>Net Income (Loss) Before Transfers</b>	(63,419)	(51,861)	42,980	(72,300)	(56,655)
Transfers in	158,819	51,898		210,717	13,363
Transfers out			(45,000)	(45,000)	(45,000)
<b>Net Increase (Decrease) in Net Position</b>	95,400	37	(2,020)	93,417	(88,292)
<b>NET POSITION - Beginning of Year</b>	1,283,933	1,694,894	64,016	3,042,843	3,131,135
<b>NET POSITION - End of Year</b>	\$ 1,379,333	\$ 1,694,931	\$ 61,996	\$ 3,136,260	\$ 3,042,843

**See Notes to the Financial Statements**

**CITY OF MADISON LAKE, MINNESOTA**  
**PROPRIETARY FUND**  
**STATEMENT OF CASH FLOW**  
For the Year Ended December 31, 2017  
*With Comparative Totals for the Year Ended December 31, 2016*

	Business - Type Activities - Enterprise Funds				
	Water	Sewer	Refuse	Total	
				2017	2016
<b>Cash Flows From Operating Activities</b>					
Cash received from customers	\$ 209,340	\$ 336,676	\$ 131,210	\$ 677,226	\$ 678,950
Cash paid to suppliers	(64,964)	(164,779)	(92,900)	(322,643)	(274,478)
Cash paid to employees	(56,733)	(55,305)	(9,809)	(121,847)	(122,345)
Net Cash Provided By Operating Activities	87,643	116,592	28,501	232,736	282,127
<b>Cash Flows From Noncapital Financing Activities</b>					
Other income (expense)	4,897	59,370		64,267	
Increase (decrease) in customer deposits	1,570			1,570	2,918
Net Cash Provided By Noncapital Financing Activities	6,467	59,370		65,837	2,918
<b>Cash Flows From Capital and Related Financing Activities</b>					
Connection and infrastructure fees received					51,817
Acquisition of capital assets	(158,819)	(51,898)		(210,717)	(1,569,928)
Principal paid on special assessments	257	446	190	893	
Proceeds from bonds issued, net					1,232,015
Principal paid on long-term debt	(97,302)	(176,337)		(273,639)	(185,162)
Interest and fiscal agent fees	(46,992)	(57,584)		(104,576)	(81,363)
Transfer in from (out to) other funds	158,819	51,898	(45,000)	165,717	(31,637)
Net Cash Provided By (Used In) Capital and Related Financing Activities	(144,037)	(233,475)	(44,810)	(422,322)	(584,258)
<b>Cash Flows From Investing Activities</b>					
Investment income	1,398	723		2,121	1,636
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(48,529)	(56,790)	(16,309)	(121,628)	(297,577)
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	149,450	830,980	77,235	1,057,665	1,355,242
<b>CASH AND CASH EQUIVALENTS - End of Year</b>	\$ 100,921	\$ 774,190	\$ 60,926	\$ 936,037	\$ 1,057,665

**See Notes to the Financial Statements**

**RECONCILIATION OF OPERATING INCOME  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

	Business - Type Activities - Enterprise Funds				
	Water	Sewer	Refuse	Total	
				2017	2016
<b>Operating Income</b>	\$ (18,470)	\$ (41,406)	\$ 42,980	\$ (16,896)	\$ (19,347)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Other income related to operations					438
Depreciation	100,156	146,618		246,774	281,079
Change in net pension liability	3,239	3,303	856	7,398	9,484
(Increase) Decrease In:					
Accounts receivable	10,970	12,565	(1,131)	22,404	3,842
Increase (Decrease) In:					
Accounts payable	(7,754)	(3,990)	(14,088)	(25,832)	2,920
Accrued expenses	(498)	(498)	(116)	(1,112)	3,711
 Net Cash Provided By Operating Activities	 \$ 87,643	 \$ 116,592	 \$ 28,501	 \$ 232,736	 \$ 282,127
 <b>Noncash Investing, Capital, and Financing Activities</b>					
Capital assets acquired on account					155,487
Amortization of bond premium	(425)	(828)		(1,253)	(631)
Bond proceeds receivable in due from other governments					41,488
Adjustment related to due to other governments related to capital projects					217,675

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**CITY OF MADISON LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

# CITY OF MADISON LAKE, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies

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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.

#### A. Reporting Entity

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. *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.

# CITY OF MADISON LAKE, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies (Continued)

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

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.

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.

#### D. *Description of Funds*

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 *Fire fund* accounts for the costs associated with the City's fire protection, which are committed revenue sources for the fund. The major source of revenue for this fund is charges for services.

# CITY OF MADISON LAKE, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies (Continued)

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#### D. *Description of Funds (Continued)*

The *Debt Service fund 2014A/B Bond* 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 *Debt Service fund 2016A Bond* 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 2014 street and utility improvement project.

The *2015 Construction fund* accounts for costs associated with 2015 street and utility improvement project.

The *Public Works Construction fund* accounts for costs associated with the new Public Work Garage.

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.

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.

# CITY OF MADISON LAKE, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies (Continued)

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#### *E. Assets, Deferred Outflows of Resources, 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 statement 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.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's recurring fair value measurements are listed in detail on page 58 and are valued using quoted market prices (Level 1 inputs).

# CITY OF MADISON LAKE, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies (Continued)

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#### Deposits and Investments (Continued)

The Minnesota Municipal Money Market 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 regulatory rules of the SEC. 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. Financial statements of the 4M Fund can be obtained by contracting RBC Global 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:

1. *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.
2. *Liquidity* - Maintaining the necessary liquidity to match expected liabilities is the second investment objective.
3. *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 2017. All enterprise fund trade receivables are considered collectible because the City annually certifies delinquent accounts to the County for collection.

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

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**1. Summary of Significant Accounting Policies (Continued)**

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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.

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 acquisition 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 straight line method over the following estimated useful lives:

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

# CITY OF MADISON LAKE, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies (Continued)

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#### 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 City 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.

#### 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 Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

#### Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements 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 City has only one type of item, 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: taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

# CITY OF MADISON LAKE, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies (Continued)

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#### Pensions

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

#### 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 at least 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 FINANCIAL STATEMENTS (CONTINUED)**

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**1. Summary of Significant Accounting Policies (Continued)**

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*Net Position*

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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”.

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.

*Reclassification*

Certain amounts in the 2016 financial statement have been reclassified to conform with the 2017 presentation.

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**2. Stewardship, Compliance, and Accountability**

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*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 2017.

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## CITY OF MADISON LAKE, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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#### 3. Cash and Investments

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##### 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, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- a) United States government Treasury bills, Treasury notes, Treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) 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;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) 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
- f) 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.

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. Cash and Investments (Continued)**

Fair Value Investments

As of December 31, 2017, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

<u>Cash and Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Amount</u>	<u>Fair Value Measurement Level 1</u>
Cash on hand			\$ 224	
Deposits			2,526,278	
Pooled investments at amortized cost				
4M Fund	None	Unrated	3,684,549	
Broker Money Market Funds	None	Unrated	22,765	
Non-pooled investments at fair value				
Government Agency Securities	None	Unrated	147,643	147,643
			<u>\$6,381,459</u>	<u>\$ 147,643</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 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 FINANCIAL STATEMENTS (CONTINUED)**

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**3. Cash and Investments (Continued)**

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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	2,526,278
Investments	<u>3,854,957</u>
Total	<u>\$6,381,459</u>

Collateralization of Cash Deposits

The City's deposits are covered by federal depository insurance or by collateral held by the City's custodial banks in the City's name.

Minnesota Statutes require that all City deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state of local government obligations and legal investments. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has no investment policy that would limit its investment choices. The city's investment ratings are from Standard & Poor Investors Service.

Concentration of Credit Risk

The city places no limit on the amount the city may invest in any one issuer.

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, 2017 was \$55,486.

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. Due From Other Governmental Units**

Amounts due from other governmental units as of December 31, 2017 are as follows:

Fund	Blue Earth County	Other	Total
General	\$ 6,004		\$ 6,004
Special Revenue:			
Fire		20,041	20,041
Debt Service:			
2014 A/B Improvement	743		743
2016A Improvement	36		36
2006 GO Improvement Bond	3		3
Totals	<u>\$ 6,786</u>	<u>\$ 20,041</u>	<u>\$ 26,827</u>

**5. Capital Assets**

Capital asset activity for the City for the year ended December 31, 2017 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 405,357	\$	\$	\$ 405,357
Construction in progress	1,046,190	780,405	1,117,736	708,859
Total capital assets, not being depreciated	<u>1,451,547</u>	<u>780,405</u>	<u>1,117,736</u>	<u>1,114,216</u>
Capital assets, being depreciated:				
Land improvements	37,509			37,509
Buildings	922,778			922,778
Infrastructure	7,881,027	1,098,221		8,979,248
Machinery and equipment	474,451	86,278	11,649	549,080
Vehicles	605,868	48,789	31,741	622,916
Total capital assets, being depreciated	<u>9,921,633</u>	<u>1,233,288</u>	<u>43,390</u>	<u>11,111,531</u>
Less accumulated depreciation for:				
Land improvements	18,991	2,501		21,492
Buildings	774,672	24,357		799,029
Infrastructure	1,764,398	335,229		2,099,627
Machinery and equipment	362,835	36,668	9,125	390,378
Vehicles	524,057	34,500	31,741	526,816
Total accumulated depreciation	<u>3,444,953</u>	<u>433,255</u>	<u>40,866</u>	<u>3,837,342</u>
Total capital assets, being depreciated, net	<u>6,476,680</u>	<u>800,033</u>	<u>2,524</u>	<u>7,274,189</u>
Governmental activities capital assets, net	<u>\$ 7,928,227</u>	<u>\$ 1,580,438</u>	<u>\$ 1,120,260</u>	<u>\$ 8,388,405</u>

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**5. Capital Assets (Continued)**

<b>Business-Type Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 47,313			\$ 47,313
Construction in progress	1,498,409	55,231	1,553,640	
Total capital assets, not being depreciated	<u>1,545,722</u>	<u>55,231</u>	<u>1,553,640</u>	<u>47,313</u>
Capital assets, being depreciated:				
Buildings and improvements	12,572			12,572
Infrastructure	9,551,387	1,553,640		11,105,027
Machinery and equipment	65,190			65,190
Total capital assets, being depreciated	<u>9,629,149</u>	<u>1,553,640</u>		<u>11,182,789</u>
Less accumulated depreciation for:				
Buildings and improvements	12,572			12,572
Infrastructure	4,273,567	244,074		4,517,641
Machinery and equipment	44,264	2,700		46,964
Total accumulated depreciation	<u>4,330,403</u>	<u>246,774</u>		<u>4,577,177</u>
Total capital assets, being depreciated, net	<u>5,298,746</u>	<u>1,306,866</u>		<u>6,605,612</u>
Business-type activities capital assets, net	<u>\$ 6,844,468</u>	<u>\$ 1,362,097</u>	<u>\$ 1,553,640</u>	<u>\$ 6,652,925</u>

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

**Governmental Activities:**

General government	\$ 22,294
Public safety	46,123
Public works	355,580
Culture and recreation	9,258
Total depreciation expense - governmental activities	<u>\$ 433,255</u>

**Business-Type Activities:**

Water	\$ 100,156
Sewer	146,618
Total depreciation expense - business-type activities	<u>\$ 246,774</u>

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**5. Capital Assets (Continued)**

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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 it is owned by the City of Mankato. The City is making payments totaling \$1,210,829 to the City of Mankato to help with the construction costs. 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 is amortizing these sewer hookup rights over 20 years (\$60,541 per year). The balance of the hookup rights at December 31, 2017 was \$845,580 and is included in the City's infrastructure capital assets.

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**6. Long-Term Debt**

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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.

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.

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.

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the schedule of bonds payable and compensated absences.

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**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**6. Long-Term Debt (Continued)**

A summary of interest rates, maturities and December 31, 2017 balances are as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2017
General Obligation Improvement Bonds:			
Series 2006A Improvement	4.25%	2/1/2018	\$ 15,000
Series 2014A Improvement	3.00-3.50%	2/1/2035	2,906,071
Series 2014B Improvement	3.00-3.63%	2/1/2035	1,640,000
Series 2016A Improvement	2.00-3.00%	2/1/2037	1,465,000
Series 2017A Improvement	3.50%	2/1/2032	350,000
General Obligation Revenue Bonds:			
Water and Sewer 2014A	3.00-3.50%	2/1/2035	1,083,929
Water and Sewer 2016A	2.00-3.00%	2/1/2037	485,000
General Obligation Revenue Note:			
2009 PFA	4.50%	2/1/2029	206,000
2010 PFA		2/1/2029	398,000
2011 PFA		2/1/2031	618,000
2016 PFA		2/1/2036	757,659
Loan payable to the City of Mankato	1.88%	8/1/2028	840,111
Unamortized Premium			105,088
Compensated Absences			12,340
			<hr/>
Total Long-Term Debt			<u>\$ 10,882,198</u>

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**6. Long-Term Debt (Continued)**

Long-term liability activity for the year ended December 31, 2017 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Improvement Bonds:					
Series 2006A	\$ 30,000	\$	\$ 15,000	\$ 15,000	\$ 15,000
Series 2014A	2,997,114		91,043	2,906,071	131,101
Series 2014B	1,705,000		65,000	1,640,000	75,000
Series 2016A	1,465,000			1,465,000	60,000
Series 2017A		350,000		350,000	19,000
Total	6,197,114	350,000	171,043	6,376,071	300,101
Unamortized Premium	87,198		4,632	82,566	4,632
Compensated Absences	9,110	738	1,370	8,478	
Governmental Activities Long-term Liabilities	6,293,422	350,738	177,045	6,467,115	304,733
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Sewer Revenue:					
Refunding Bond of 2007A	30,000		30,000		
General Obligation Revenue Bonds:					
Series 2014A	1,117,886		33,957	1,083,929	48,899
Series 2016A	485,000			485,000	20,000
PFA Loans:					
PFA 1995A	7,538		7,538		
PFA 2009	221,000		15,000	206,000	15,000
PFA 2010	427,000		29,000	398,000	30,000
PFA 2011	656,000		38,000	618,000	39,000
PFA 2016	776,076		18,417	757,659	39,000
<b>LOAN PAYABLE</b>					
Loan payable to the City of Mankato	941,839		101,728	840,111	69,423
Total	4,662,339		273,640	4,388,699	261,322
Unamortized Premium	23,775		1,253	22,522	1,252
Compensated Absences	4,052		190	3,862	
Business-type Activities Long-term Liabilities	4,690,166		275,083	4,415,083	262,574
Total	<u>\$ 10,983,588</u>	<u>\$ 350,738</u>	<u>\$ 452,128</u>	<u>\$ 10,882,198</u>	<u>\$ 567,307</u>

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**6. Long-Term Debt (Continued)**

The annual requirements to amortize all long-term debt outstanding as of December 31, 2017, over the life of the debt, are summarized below:

Years	General Obligation Improvement Bonds		General Obligation Revenue Bonds / Notes		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2018	\$ 281,101	\$ 178,360	\$ 19,000	\$ 11,253	\$	\$	\$ 300,101	\$ 189,613
2019	269,743	170,604	19,000	10,570			288,743	181,174
2020	269,743	163,111	20,000	9,870			289,743	172,981
2021	278,384	155,515	20,000	9,153			298,384	164,668
2022	287,026	147,683	21,000	8,401			308,026	156,084
2023-2027	1,518,831	614,943	116,000	29,945			1,634,831	644,888
2028-2032	1,740,365	376,178	135,000	7,870			1,875,365	384,048
2033-2037	1,380,878	84,734					1,380,878	84,734
Totals	<u>\$6,026,071</u>	<u>\$1,891,129</u>	<u>\$ 350,000</u>	<u>\$ 87,062</u>	<u>\$</u>	<u>\$</u>	<u>\$6,376,071</u>	<u>\$1,978,191</u>
<u>Business-Type Activities</u>								
2018	\$	\$	\$ 191,899	\$ 76,853	\$ 69,423	\$ 15,486	\$ 261,322	\$ 92,339
2019			195,257	72,972	70,736	14,173	265,993	87,145
2020			197,257	69,032	72,074	12,836	269,331	81,868
2021			200,616	65,044	73,436	11,473	274,052	76,517
2022			204,974	60,977	74,825	10,084	279,799	71,061
2023-2027			1,085,169	241,033	395,890	28,656	1,481,059	269,689
2028-2032			975,635	125,640	83,727	1,184	1,059,362	126,823
2033-2037			497,780	27,930			497,780	27,930
Totals	<u>\$</u>	<u>\$</u>	<u>\$3,548,588</u>	<u>\$739,481</u>	<u>\$840,111</u>	<u>\$93,892</u>	<u>\$4,388,699</u>	<u>\$ 833,372</u>

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**7. Individual Fund Disclosures**

The amounts due to and from other funds as of December 31, 2017, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 799,168	\$
Capital Project Funds:		
CSAH 26 Reconstruction		261,494
2014 Construction Fund		537,674
	<u>\$ 799,168</u>	<u>\$ 799,168</u>

Transfers during the year ended December 31, 2017 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 45,000	\$ 169,920
Special Revenue		
Fire Fund	47,403	20,000
Capital Projects:		
2015 Construction Fund		210,717
Public Works Building	142,517	
Enterprise Funds:		
Water	158,819	
Sewer	51,898	
Refuse		45,000
Totals	<u>\$ 445,637</u>	<u>\$ 445,637</u>

Excess expenditures over budgeted appropriations at the individual fund level during 2017 are as follows:

General Fund	\$ 145,193
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All excess expenditures were the result of planned processes.

As of December 31, 2017, the following funds had deficit fund balances/net position:

Capital Projects Funds	
2014 Construction	\$ 538,508
CSAH 26 Reconstruction	261,494

The above fund deficits will be funded through future transfers.

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**8. Fund Equity**

The City has assigned portions of the fund equity in the governmental funds. A summary of the assigned portion of the fund equity at December 31, 2017 is as follows:

	General	Fire	Capital Projects			Other Governmental Funds	Total Governmental Funds
			2014 Construction	2015 Construction	Public Works Construction		
<b>Assigned for</b>							
Administration	\$ 7,432	\$	\$	\$	\$	\$	\$ 7,432
City hall	15,041						15,041
Police car and equipment	11,370						11,370
Police building	43,600						43,600
Police forfeitures	5,483						5,483
Civil defense	15,731						15,731
Public works truck and equipment	77,862						77,862
Street Improvement	44,477						44,477
Park playground	23,803						23,803
Park maintenance equipment	17,391						17,391
Park land dedication	40,983						40,983
Park building	61,000						61,000
City signs	2,006						2,006
Holiday light	7,095						7,095
Economic development	25,031						25,031
Street lights	12,650						12,650
Capital outlay				76,902		535,884	612,786
Fire truck		256,139					256,139
Fire equipment		125,654					125,654
Fire building and rent		155,342					155,342
Fire department operations		198,786					198,786
<b>Total Assigned</b>	<b>\$ 410,955</b>	<b>\$ 735,921</b>	<b>\$</b>	<b>\$ 76,902</b>	<b>\$</b>	<b>\$ 535,884</b>	<b>\$ 1,759,662</b>

## CITY OF MADISON LAKE, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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#### 9. Defined Benefit Pension Plans - Statewide

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##### Plan Description

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

1. General Employees Retirement Plan - All full-time and certain part-time employees of the City of Madison Lake are covered by General Employee Retirement Plan. General Employee Retirement Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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

##### Benefits Provided

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

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

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

#### 1. General Employee Retirement Plan Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

## CITY OF MADISON LAKE, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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#### 9. Defined Benefit Pension Plans – Statewide (Continued)

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##### 2. Public Employees Police and Fire Fund Benefits

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

##### Contributions

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

##### 1. General Employee Retirement Plan Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employee Retirement Plan for the year ended December 31, 2017, were \$13,614. The City's contributions were equal to the required contributions as set by state statute.

##### 2. Public Employees Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City's was required to contribute 16.20% of pay for Public Employees Police and Fire Fund members in calendar year 2017. The City's contributions to the Public Employees Police and Fire Fund for the year ended December 31, 2017, were \$24,843. The City's contributions were equal to the required contributions as set by state statute.

##### Pension Costs

##### 1. General Employee Retirement Plan Pension Costs

At December 31, 2017, the City reported a liability of \$202,518 for its proportionate share of the General Employee Retirement Plan's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$2,262. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was .0280% at the end of the measurement period and .0230% for the beginning of the period.

For the year ended December 31, 2017, the City recognized pension expense of \$13,614 for its proportionate share of the General Employee Retirement Plan's pension expense. In addition, the city recognized an additional \$65 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's \$6 million contribution to general employee retirement fund.

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**9. Defined Benefit Pension Plans – Statewide (Continued)**

At December 31, 2017, the City reported its proportionate share of the General Employee Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$	\$ 2,314
Changes in actuarial assumptions	8,721	
Difference between projected and actual investment earnings		16,358
Changes in proportion	13,006	
Contributions paid to GERF subsequent to the measurement date	<u>4,876</u>	
 Total	 <u>\$ 26,603</u>	 <u>\$ 18,672</u>

\$4,876 reported as deferred outflows of resources related to pensions City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ending December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	<u>Pension Expense Amount</u>
2018	\$ 3,714
2019	3,712
2020	3,215
2021	(7,586)

**2. Public Employees Police and Fire Fund Pension Costs**

At December 31, 2017, the City reported a liability of \$178,750 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was .0150% at the end of the measurement period and .0120% for the beginning of the period.

For the year ended December 31, 2017, the City recognized pension expense of \$24,843 for its proportionate share of the Public Employees Police and Fire Fund's pension expense. The City also recognized \$1,350 for the year ended December 31, 2017, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the Public Employees Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014.



## CITY OF MADISON LAKE, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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#### 9. Defined Benefit Pension Plans – Statewide (Continued)

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Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employee Retirement Plan was completed in 2015. The most recent five-year experience study for Public Employees Police and Fire Fund was completed in 2016.

The following changes in actuarial assumptions occurred in 2017.

##### 1. General Employee Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

##### 2. Public Employees Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

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

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**9. Defined Benefit Pension Plans - Statewide (Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Cash	5%	0.00%
Total	100%	

The discount rate used to measure the total pension liability in 2017 was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of General Employee Retirement Plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.5%	7.5%	8.5%
City's proportionate share of the GERF net pension liability	\$ 277,255	\$ 178,750	\$ 98,106
City's proportionate share of the PEPFF net pension liability	\$ 381,400	\$ 202,518	\$ 54,841

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**10. Defined Contribution Pension Plan - Volunteer Fire Relief Association**

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The following information is based upon the Madison Lake Firefighter’s Relief Association (“Association”) actuarial report for the year ended December 31, 2016 which is the latest information available. The City does not believe that the funded status changed significantly during 2017.

Plan Description

All members of the Madison Lake Fire Department (the Department) are covered by a defined benefit plan administered by the Madison Lake Fire Department Relief Association (the Association). As of December 31, 2016, the plan covered 23 active firefighters and 7 vested terminated fire fighters whose pension benefits are deferred. 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.

Benefits Provided

A fire fighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member’s service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$17,950 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2015, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City’s statutorily-required contributions to the plan for the year ended December 31, 2016 were \$5,081. The City’s contributions were equal to the required contributions as set by state statute. The City made no voluntary contributions to the plan. Furthermore, the firefighter has no obligation to contribute to the plan.

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**10. Defined Contribution Pension Plan - Volunteer Fire Relief Association (Continued)**

*Pension Costs*

At December 31, 2017, the City reported a net pension asset of \$174,737 for the plan. The net pension asset was measured as of December 31, 2016. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by Hildi, Inc. applying an actuarial formula to specific census data certified by the Department as of December 31, 2016. The following table presents the changes in net pension asset during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Beginning January 1, 2016	\$ 297,540	\$ 423,092	\$ (125,552)
Changes for the year			
Service cost	13,804		13,804
Interest on pension liability (asset)	19,868		19,868
Municipal contributions		5,436	(5,436)
Investment earnings		28,533	(28,533)
Contributions (nonemployer)		27,816	(27,816)
Asset (gain)/loss	(10,668)	10,414	(21,082)
Benefit payout	(34,000)	(34,000)	
Miscellaneous expense		(10)	10
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total net changes	(10,996)	38,189	(49,185)
Ending balance December 31, 2016	<u>\$ 286,544</u>	<u>\$ 461,281</u>	<u>\$ (174,737)</u>

For the year ended December 31, 2017, the City recognized pension expense of \$38,705.

At December 31, 2017, the City reported deferred inflows of resources and deferred outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Difference between projected and actual investment earnings	\$ 10,484	\$
Change in assumption		9,334
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 10,484</u>	<u>\$ 9,334</u>

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**10. Defined Contribution Pension Plan - Volunteer Fire Relief Association (Continued)**

Deferred outflows of resources totaling \$9,334 related to pensions resulting from the City’s contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2018	\$ 2,678
2019	2,678
2020	3,208
2021	(3,416)
2022	(1,334)
Thereafter	(2,664)

Actuarial Assumptions

The total pension liability at December 31, 2016 was determined using the entry age normal actuarial cost method and the following actuarial assumptions: Retirement eligibility at 100 percent service pension at age 50 with 20 years of service, early vested retirement at age 50 with 10 years of service vested at 60 percent and increased by 4 percent for each additional year of service up to 20 and eligibility for deferred service pension payable at age 50 with 20 years of service.

Salary increases	2.50%	Per year
Cost of living increases	4.00%	Per year
Investment rate of return	6.75%	
20 year municipal bond yield	3.50%	

There were no changes in actuarial assumptions in 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan’s target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Cash	7%	2.25%
Fixed income	7%	3.30%
Equities	85%	7.50%
Other	1%	6.00%
Total	100%	

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**10. Defined Contribution Pension Plan - Volunteer Fire Relief Association (Continued)**

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Discount Rate

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the City's net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	5.75%	6.75%	7.75%
Defined benefit plan	\$ 164,711	\$ 174,737	\$ 184,284

Pension Plan Fiduciary Net Position

The Association issues a publicly available financial report. The report may be obtained by writing to the Madison Lake Fire Department Relief Association, 525 Main Street, Madison Lake, MN 56063.

**CITY OF MADISON LAKE, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**11. Other Information**

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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).

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. 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 2017 was \$158,031 for LGA. This accounted for 18 percent of General fund revenues.

D. Tax Increment Districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

**CITY OF MADISON LAKE, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2017**

**CITY OF MADISON LAKE, MINNESOTA**  
**Schedule of City's Proportionate Share of Net Pension Liability**  
**PERA General Employees Retirement Fund**  
**Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	City's Portion of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	City's Proportionate Share of the Net Pension Liability (Asset) (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0030%	\$ 165,931		\$ 165,931	\$ 167,227	99%	78.7%
2015	0.0028%	145,111		145,111	163,848	89%	78.2%
2016	0.0023%	184,238	2,512	181,726	170,605	107%	68.9%
2017	0.0028%	176,488	2,262	174,226	167,405	104%	75.9%
2018							
2019							
2020							
2021							
2022							
2023							

**Schedule of City's and Non-Employer Proportionate Share of Net Pension Liability**  
**PERA Public Employees Police and Fire Fund Pension Plan**  
**Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	City's Portion of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	City's Proportionate Share of the Net Pension Liability (Asset) (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0100%	\$ 313,746	\$ 900	\$ 312,846	\$ 247,172	127%	87.1%
2015	0.0130%	146,540	1,170	145,370	103,935	140%	86.6%
2016	0.0120%	480,501	1,080	479,421	143,237	335%	63.9%
2017	0.0150%	201,168	1,350	199,818	145,233	138%	85.4%
2018							
2019							
2020							
2021							
2022							
2023							

**CITY OF MADISON LAKE, MINNESOTA**  
**Schedule of City's Pension Contributions**  
**GERF Retirement Funds**  
**Last Ten Years**

Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City Covered Payroll	Contributions as a Percentage of Covered Employee Payroll
2014	\$ 11,879	\$ 11,879	\$	\$ 158,387	7.50%
2015	12,788	12,788		170,507	7.50%
2016	11,497	11,497		153,290	7.50%
2017	13,614	13,614		181,520	7.50%
2018					
2019					
2020					
2021					
2022					
2023					

**Schedule of City's Pension Contributions**  
**PEPFF Retirement Funds**  
**Last Ten Years**

Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City Covered Payroll	Contributions as a Percentage of Covered Employee Payroll
2014	\$ 15,902	\$ 15,902	\$	\$ 135,563	11.73%
2015	21,710	21,710		134,012	16.20%
2016	22,212	22,212		137,114	16.20%
2017	24,843	24,843		153,352	16.20%
2018					
2019					
2020					
2021					
2022					
2023					

**CITY OF MADISON LAKE, MINNESOTA**  
**Schedule of Changes in the Fire Relief Association Net Pension Asset and Related Ratios**  
**December 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>			
Service cost	\$ 13,804	\$ 11,501	\$ 11,221
Interest	19,868	15,929	16,146
Difference between expected and actual experience			
Changes of assumptions			
Changes of benefit terms	(10,668)	45,624	
Benefit payments	(34,000)	(23,000)	(4,990)
Net change in total pension liability	(10,996)	50,054	22,377
Total Pension Liability - beginning of year	297,540	247,486	225,109
Total Pension Liability - end of year	<u>\$ 286,544</u>	<u>\$ 297,540</u>	<u>\$ 247,486</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - State and local	\$ 33,252	\$ 23,201	\$ 23,864
Net investment income	38,947	(4,291)	28,912
Benefit payments	(34,000)	(23,000)	(4,990)
Administrative expense	(10)		(161)
Net change in plan fiduciary net position	38,189	(4,090)	47,625
Plan Fiduciary Net Position - beginning of year	423,092	427,182	379,557
Plan Fiduciary Net Position - end of year	<u>\$ 461,281</u>	<u>\$ 423,092</u>	<u>\$ 427,182</u>
<b>Net Pension Liability (Asset) - End of Year</b>	<u>\$ (174,737)</u>	<u>\$ (125,552)</u>	<u>\$ (179,696)</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	160.98%	142.20%	172.61%

**Schedule of Employer's Fire Relief Association Contributions**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Valuation of Plan Assets (a)	Actuarial Valuation of Plan Assets (b)	Net Pension Liability (Assets) (a-b)
12/31/2014	\$ 247,486	\$ 427,182	\$ (179,696)
12/31/2015	297,570	423,092	(125,522)
12/31/2016	286,544	461,281	(174,737)

**CITY OF MADISON LAKE, MINNESOTA**

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

**DECEMBER 31, 2017**

**CITY OF MADISON LAKE, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2017**

	Special Revenue				Debt Service
	<u>225</u>	<u>230</u>	<u>231</u>	<u>800</u>	<u>340</u>
	Farmer's Market	Economic Development Loan - Federal	Economic Development Loan - State	Gambling	2006 G.O. Improvement Bond
<b>ASSETS</b>					
Cash and investments	\$ 3,251	\$ 334,742	\$ 23,896	\$ 2,665	\$ 43,811
Accounts receivable					
Taxes receivable delinquent					
Special assessments receivable:					
Deferred					
Loan receivable		55,486			
Due from other governmental units					3
<b>TOTAL ASSETS</b>	<u>\$ 3,251</u>	<u>\$ 390,228</u>	<u>\$ 23,896</u>	<u>\$ 2,665</u>	<u>\$ 43,814</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>					
<b>Liabilities</b>					
Due to other funds	\$	\$	\$	\$	\$
<b>Deferred Inflows of Resources</b>					
Unavailable:					
Property taxes					
Special assessments					
<b>Total Deferred Inflows of Resources</b>					
<b>Fund Balance</b>					
Restricted:					
Creditors					43,814
Community service				2,665	
Economic development		390,228	23,896		
Farmer's market	3,251				
Assigned					
Unassigned					
Total Fund Balance (Deficit)	<u>3,251</u>	<u>390,228</u>	<u>23,896</u>	<u>2,665</u>	<u>43,814</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<u>\$ 3,251</u>	<u>\$ 390,228</u>	<u>\$ 23,896</u>	<u>\$ 2,665</u>	<u>\$ 43,814</u>

Debt Service	Capital Projects					
<u>499</u> 2014B G.O. PIR Refunding Bond	<u>401</u> Public Improvement Revolving	<u>412</u> Tax Increment District #2-9	<u>413</u> CSAH 26 Reconstruction	<u>416</u> Tax Increment District #2-10	Total Nonmajor	
\$ 21,025	\$ 534,449	\$ 29,022	\$	\$ 13,427	\$ 1,006,288	
	1,435				1,435	
		2,393			2,393	
55,306	16,144				71,450	
					55,486	
					3	
<u>\$ 76,331</u>	<u>\$ 552,028</u>	<u>\$ 31,415</u>	<u>\$</u>	<u>\$ 13,427</u>	<u>\$ 1,137,055</u>	
\$	\$	\$	\$ 261,494	\$	261,494	
		2,393			2,393	
55,306	16,144				71,450	
<u>55,306</u>	<u>16,144</u>	<u>2,393</u>			<u>73,843</u>	
21,025					64,839	
					2,665	
		29,022		13,427	456,573	
					3,251	
	535,884				535,884	
			(261,494)		(261,494)	
<u>21,025</u>	<u>535,884</u>	<u>29,022</u>	<u>(261,494)</u>	<u>13,427</u>	<u>801,718</u>	
<u>\$ 76,331</u>	<u>\$ 552,028</u>	<u>\$ 31,415</u>	<u>\$</u>	<u>\$ 13,427</u>	<u>\$ 1,137,055</u>	

**CITY OF MADISON LAKE, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2017**

	Special Revenue				Debt Service
	<u>225</u>	<u>230</u>	<u>231</u>	<u>800</u>	<u>340</u>
	Farmer's Market	Economic Development Loan - Federal	Economic Development Loan - State	Gambling	2006 G.O. Improvement Bond
<b>REVENUES</b>					
Property taxes	\$	\$	\$	\$	\$ 15,294
Tax increments					
Special assessments					2,389
Charges for services					
Investment income			772		
Miscellaneous revenues				1,613	
Total Revenues			772	1,613	17,683
<b>EXPENDITURES</b>					
General government	100			500	
Economic development					
Debt service:					
Principal					15,000
Interest and fiscal charges					956
Total Expenditures	100			500	15,956
Net change in fund balances	(100)		772	1,113	1,727
Fund Balance - beginning	3,351	390,228	23,124	1,552	42,087
Fund Balance - ending	\$ 3,251	\$ 390,228	\$ 23,896	\$ 2,665	\$ 43,814

Debt Service	Capital Projects				
<u>499</u> 2014B G.O. PIR Refunding Bond	<u>401</u> Public Improvement Revolving	<u>412</u> Tax Increment District #2-9	<u>413</u> CSAH 26 Reconstruction	<u>416</u> Tax Increment District #2-10	Total Nonmajor
\$	\$	\$	\$	\$	\$
		28,648		13,427	15,294
	171				2,560
	1,435				1,435
	249				1,021
	15,411				17,024
	17,266	28,648		13,427	79,409
					600
		1,663		58	1,721
					15,000
					956
		1,663		58	18,277
	17,266	26,985		13,369	61,132
21,025	518,618	2,037	(261,494)	58	740,586
\$ 21,025	\$ 535,884	\$ 29,022	\$ (261,494)	\$ 13,427	\$ 801,718

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**CITY OF MADISON LAKE, MINNESOTA**

**SUPPLEMENTAL INFORMATION**

**DECEMBER 31, 2017**

**CITY OF MADISON LAKE, MINNESOTA  
WATER FUND  
Balance Sheet  
December 31, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and investments	\$ 100,921	\$ 149,450
Accounts receivable	15,143	25,937
Special assessments receivable	1,075	1,332
Due from other governments	41,488	41,664
Total Current Assets	158,627	218,383
<b>Noncurrent Assets</b>		
Capital assets:		
Non-depreciable	35,471	1,169,233
Depreciable	4,721,624	3,547,161
Less: Accumulated depreciation	1,143,349	1,043,193
Total Capital Assets	3,613,746	3,673,201
<b>TOTAL ASSETS</b>	3,772,373	3,891,584
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows from pension activity	6,721	16,089
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	1,621	127,493
Accrued expenses	1,251	1,860
Accrued interest	16,894	12,217
Customer deposits	8,436	6,866
Current maturities of bonds payable	131,695	97,302
Total Current Liabilities	159,897	245,738
<b>Noncurrent Liabilities</b>		
Bonds payable, net of current maturities, and premium	2,188,504	2,320,624
Compensated absences payable	1,898	1,787
Net pension liability	44,784	45,981
Total Noncurrent Liabilities	2,235,186	2,368,392
<b>TOTAL LIABILITIES</b>	2,395,083	2,614,130
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows from pension activity	4,678	9,610
<b>Net Position</b>		
Net investment in capital assets	1,293,547	1,255,275
Unrestricted	85,786	28,658
Total Net Position	\$ 1,379,333	\$ 1,283,933

**CITY OF MADISON LAKE, MINNESOTA  
WATER FUND  
Statement of Revenues, Expenses  
and Changes in Net Position  
For the Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Operating Revenue</b>		
User fees	\$ 198,370	\$ 215,798
<b>Operating Expenses</b>		
Employee services	38,615	39,834
Employee benefits and retirements	21,357	23,141
Materials and supplies	16,928	13,354
Repairs and maintenance	1,513	2,838
Utilities	12,734	13,566
Depreciation	100,156	102,684
Contractual services	5,904	
Professional services	15,278	2,664
Other charges	4,355	11,727
Total	216,840	209,808
Operating Income (Loss)	(18,470)	5,990
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	1,398	1,267
Miscellaneous income	4,897	208
Interest expense	(51,244)	(36,262)
Total Nonoperating Revenues (Expenses)	(44,949)	(34,787)
<b>Net Loss Before Transfers</b>	(63,419)	(28,797)
Transfers in	158,819	
<b>Change in Net Position</b>	95,400	(28,797)
<b>NET POSITION - Beginning of Year</b>	1,283,933	1,312,730
<b>NET POSITION - End of Year</b>	\$ 1,379,333	\$ 1,283,933

**CITY OF MADISON LAKE, MINNESOTA  
SEWER FUND  
Balance Sheet  
December 31, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and investments	\$ 774,190	\$ 830,980
Accounts receivable	32,076	44,357
Special Assessments - Deferred	35,302	35,302
Special Assessments - Delinquent	1,700	2,146
Due from other governments		284
Total Current Assets	843,268	913,069
<b>Noncurrent Assets</b>		
Capital assets		
Nondepreciable	11,842	376,489
Depreciable	6,461,165	6,081,988
Less: Accumulated depreciation	3,433,828	3,287,210
Total Capital Assets	3,039,179	3,171,267
<b>TOTAL ASSETS</b>	<b>3,882,447</b>	<b>4,084,336</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows from pension activity	6,657	16,089
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	5,711	39,555
Due to other governments		7,515
Accrued expenses	1,251	1,860
Accrued interest	44,829	31,037
Loans payable, current	69,423	101,727
Bonds payable, current	60,204	67,072
Total Current Liabilities	181,418	248,766
<b>Noncurrent Liabilities</b>		
Bonds payable, net current portion and premium	1,190,708	1,259,276
Loans payable, net of current portion	770,687	840,111
Compensated absences payable	1,898	1,787
Net pension liability	44,784	45,981
Total Noncurrent Liabilities	2,008,077	2,147,155
<b>TOTAL LIABILITIES</b>	<b>2,189,495</b>	<b>2,395,921</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows from pension activity	4,678	9,610
<b>Net Position</b>		
Net investment in capital assets	1,788,267	1,844,919
Restricted for		
Infrastructure	58,928	58,459
Unrestricted	(152,264)	(208,484)
Total Net Position	\$ 1,694,931	\$ 1,694,894

**CITY OF MADISON LAKE, MINNESOTA  
SEWER FUND  
Statement of Revenues, Expenses  
and Changes in Net Position  
For the Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Operating Revenue</b>		
Sales	\$ 324,111	\$ 331,706
<b>Operating Expenses</b>		
Employee services	37,765	39,834
Employee benefits and retirements	20,843	21,088
Materials and supplies	2,419	3,591
Repairs and maintenance	3,900	1,709
Utilities	21,417	19,062
Depreciation	146,618	178,395
Contractual services	1,996	1,005
Other charges	130,559	117,153
Total	365,517	381,837
Operating Loss	(41,406)	(50,131)
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	723	369
Miscellaneous income	59,370	43,835
Interest expense	(70,548)	(54,937)
Total Nonoperating Revenues (Expenses)	(10,455)	(10,733)
<b>Net Loss Before Transfers</b>	(51,861)	(60,864)
Transfers in	51,898	13,363
<b>Change in Net Position</b>	37	(47,501)
<b>NET POSITION - Beginning of Year</b>	1,694,894	1,742,395
<b>NET POSITION - End of Year</b>	\$ 1,694,931	\$ 1,694,894

**CITY OF MADISON LAKE, MINNESOTA**  
**REFUSE FUND**  
**Balance Sheet**  
**December 31, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and investments	\$ 60,926	\$ 77,235
Accounts receivable	11,888	10,640
Special assessments		
Delinquent	694	884
Due from other governments		117
	73,508	88,876
<b>TOTAL ASSETS</b>		
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows from pension activity	1,615	3,998
	1,615	3,998
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable		14,088
Accrued expenses	774	478
Total Current Liabilities	774	14,566
<b>Noncurrent Liabilities</b>		
Net pension liability	11,126	11,426
Compensated absences payable	66	478
Total Noncurrent Liabilities	11,192	11,904
	11,966	26,470
<b>TOTAL LIABILITIES</b>		
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows from pension activity	1,161	2,388
	1,161	2,388
<b>Net Position</b>		
Unrestricted	\$ 61,996	\$ 64,016
	61,996	64,016

**CITY OF MADISON LAKE, MINNESOTA**  
**REFUSE FUND**  
**Statement of Revenues, Expenses**  
**and Changes in Net Position**  
**For the Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Operating Revenues</b>		
Sales	\$ 132,341	\$ 137,343
<b>Operating Expenses</b>		
Employee services	7,355	10,479
Employee benefits and retirements	3,310	6,556
Materials and supplies	409	538
Other charges	78,287	86,764
Total	<u>89,361</u>	<u>104,337</u>
<b>Net Income Before Transfers</b>	42,980	33,006
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>
<b>Net Income (Loss)</b>	(2,020)	(11,994)
<b>NET POSITION - Beginning of Year</b>	<u>64,016</u>	<u>76,010</u>
<b>NET POSITION - End of Year</b>	<u><u>\$ 61,996</u></u>	<u><u>\$ 64,016</u></u>

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**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**

To the 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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Madison Lake, Minnesota's basic financial statements, and have issued our report thereon dated June 25, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Madison Lake, Minnesota'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 of Madison Lake, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Madison Lake, Minnesota's internal control.

*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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, finding 2016-001 and 2016-002 described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Madison Lake, Minnesota'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*.

To the City Council  
City of Madison Lake, Minnesota

### **City of Madison Lake, Minnesota's Response to Findings**

City of Madison Lake, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Madison Lake, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Smith, Schaff and Associates, Ltd.*

Rochester, Minnesota  
June 25, 2018



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**CITY OF MADISON LAKE, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**SEGREGATION OF DUTIES**

**2016-001 Limited 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 taken measures 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. The interim City Administrator recommends filling the part-time clerical support staff position to add to the checks and balances and processing accuracy.

*Updated progress since prior year:*

There is no change in this finding.

**CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**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 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 interim City Administrator recommends filling the part-time clerical support staff position to add to the checks and balances and processing accuracy.

*Updated progress since prior year:*

There is no change in this finding.

**CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**SEGREGATION OF DUTIES – Continued**

**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. The Administrator will provide a monthly receipt ledger for the Council to review to verify accuracy and completeness of deposits. The interim City Administrator recommends filling the part-time clerical support staff position to add to the checks and balances and processing accuracy.

*Updated progress since prior year:*

There is no change in this finding.

**CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**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 taken measures 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. The interim City Administrator recommends filling the part-time clerical support staff position to add to the checks and balances and processing accuracy. The City will actively promote on-line payments to reduce cash and check transactions and provide additional record management.

***Updated progress since prior year:***

There is no change in this finding.

**CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**SEGREGATION OF DUTIES – Continued**

**Internal control over investment transactions**

***Condition:*** 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 taken measures 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. The interim City Administrator recommends filling the part-time clerical support staff position to add to the checks and balances and processing accuracy. The City will actively promote on-line payments to reduce cash and check transactions and provide additional record management. When investment funds are transferred the City Council will receive a report on each transaction at their regular meeting.

***Updated progress since prior year:***

There is no change in this finding.



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**CITY OF MADISON LAKE, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2016-002 FINANCIAL REPORT PREPARATION**

**Condition:** As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. 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 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.

**Criteria:** Internal controls should be in place to provide reasonable assurance over financial planning.

**Cause:** 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.

**Effect:** 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

**Recommendation:** 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.

**Management response:**

The City will revise the position description of City Administrator to require greater knowledge of and attention to financial statement preparation and review as an essential function of the position. For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

*Updated progress since prior year:*

There is no change in this finding.



**CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
PRIOR YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2016-003 MATERIAL ACCOUNTING/ AUDIT ADJUSTMENTS**

**Condition:** During our audit, adjustments were needed to record numerous accounting and audit adjustments, including some material.

**Criteria:** The financial statements are the responsibility of the City's management.

**Cause:** City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.

**Effect:** 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.

**Recommendation:** 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.

**Management response:**

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.

Finding did not reoccur in 2017.



**CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
PRIOR YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2016-004 COLLATERAL COVERAGE**

**Condition:** Auditing of legal compliance requires a review of the City's deposits and investments. Our study indicated an instance of non-compliance that we believe is required to be remedied.

**Criteria:** In accordance with Minnesota Statute, section 118A.03, the City is required to have pledged collateral equal to 110 percent of the deposit not covered with insurance.

**Cause:** The City had \$213,712 of deposits uncollateralized on December 31, 2016 due to inadequate monitoring of the collateral requirements.

**Effect:** The City is not in compliance with this statute.

**Recommendation:** We recommend the City establish a more specific understanding with the bank for the needed collateral. Ultimately, it is the City's responsibility to have adequate coverage regardless of the bank's process.

**Management response:**

The Deputy Clerk has been explained the requirements for collateral coverage and will talk to the bank about increasing their amount of collateral. In addition, the Deputy Clerk will be keeping a work paper tracking tool for the collateral that allows them to see if they have a sufficient amount or not, to ensure this is unlikely to happen again in the future.

Finding did not reoccur in 2017.



**CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
PRIOR YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2016-005 TIME PERIOD FOR PAYMENT**

**Condition:** During our audit procures, it came to our attention that the City had not made several payments within the timeframe set forth by State statutes.

**Criteria:** Minnesota statute §471.425 requires the City to pay bills within 35 days from receipt. If the invoice is not paid within 35 days, interest at 1.50 percent per month is to be added to the amount due.

**Cause:** While testing disbursements, we noted that some invoices indicated that timely payments had not been made. Specifically, the City had not paid the original invoice within 35 days set forth in State statute.

**Effect:** The City is not in compliance with this statute.

**Recommendation:** We recommend that the City develop policies and procedures related to the accounts payable cycle. These policies and procedures should include payment terms that are outlined within State statutes. Implementing this recommendation will not result in any additional cost to the City.

**Management response:**

The City is aware of the situation and has now implemented procedures to ensure that timely payments are made from now on including verification by the City administrator in confirming that payments are being processed timely.

Finding did not reoccur in 2017.



**CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
PRIOR YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2016-006 LATE PAYROLL TAX PAYMENTS**

**Condition:** During our audit, we noted that the City did not make timely payroll tax deposits according to IRS tax code.

**Criteria:** In accordance with IRS tax code, the City must follow the monthly deposit schedule when making payroll tax payments.

**Cause:** The City was making quarterly payroll tax deposits as opposed to monthly deposits per IRS tax code.

**Effect:** We recommend that the City comply with the above tax code.

**Recommendation:** We recommend that the City develop policies and procedures related to the accounts payable cycle. These policies and procedures should include payment terms that are outlined within State statutes. Implementing this recommendation will not result in any additional cost to the City.

**Management response:**

The City is aware of the situation and plans to implement procedures and proper training of staff to ensure that timely payments are made going forward. The City will fully comply with the tax code.

Finding did not reoccur in 2017.



**CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
PRIOR YEAR ENDED DECEMBER 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2016-007 PROPER SUPPORTING DOCUMENTATION**

**Condition:** During our audit, we noted that the City did not make timely payroll tax deposits according to IRS tax code.

**Criteria:** In accordance with IRS tax code, the City must follow the monthly deposit schedule when making payroll tax payments.

**Cause:** The City was making quarterly payroll tax deposits as opposed to monthly deposits per IRS tax code.

**Effect:** We recommend that the City comply with the above tax code.

**Recommendation:** We recommended that the City develop a procedure to keep track of original invoices and to automatically put the invoice in the corresponding folder after approval for payment.

**Management response:**

The City will monitor that the Deputy Clerk insures that all invoices and relevant documentation will be footed and extended, initialed by the appropriate paying Department, and submitted for payment and files will be kept in such a manner that invoices and payment record will be co-located to insure prompt recall of accounts payable data and documentation.

Finding did not reoccur in 2017.

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## MINNESOTA LEGAL COMPLIANCE

### Independent Auditor's Report

Honorable Mayor and Members  
of the City Council  
**City of Madison Lake, Minnesota**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the City of Madison Lake, Minnesota, as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 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 of Madison Lake, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Madison Lake, Minnesota's noncompliance with the above referenced provisions.

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

*Smith, Schaffer and Associates, Ltd.*

Rochester, Minnesota  
June 25, 2018