

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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ANNUAL FINANCIAL REPORT  
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**INTRODUCTORY SECTION**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
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CITY OF MADISON LAKE, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
FOR THE YEAR DECEMBER 31, 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ken Reichel	Mayor	12/31/18
Laurinda Sohre	Council	12/31/16
Carolyn Hiniker	Council	12/31/16
Kent Hoehn	Council	12/31/18
Pat Burt	Council	12/31/18

**APPOINTED**

Ariel Klugman (January-April)	City Administrator/Clerk
Wendell Sande (May-June)	Interim City Administrator/Clerk
Michael Hanson (July- December)	City Administrator/Clerk

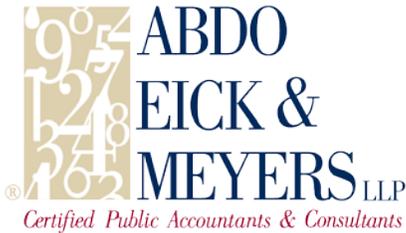
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**FINANCIAL SECTION**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Madison Lake, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General and Fire funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedules of Employer's Share of the Net Pension Liability, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios and the Schedules of Employer's Contributions starting on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

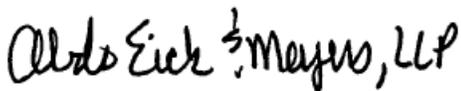
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
September 26, 2017

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## **Management's Discussion and Analysis**

As management of the City of Madison Lake, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016.

### **Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$13,394,948 (net position). Of this amount, \$1,346,102 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$490,690 as compared to an increase of \$215,469 in the previous year. The governmental activities increased by \$578,982 and the business type activities decreased by \$88,292. The majority of the governmental activity is attributable to the assessments that were levied for the 2016 street and utility improvements. The decrease in the business type activities is due to a decrease in charges for services and transfers.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,493,936, an increase of \$1,112,901 in comparison with the prior year. The majority of the governmental funds increase was due a bond issuance to fund costs attributed to the 2016 Street and Utility Improvements Project and related prepaid special assessments.

### **Overview of the Financial Statements**

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

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

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

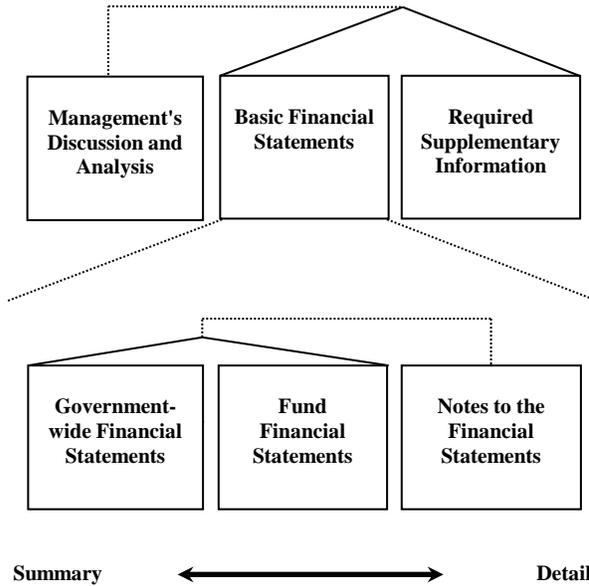


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

	<b>Fund Financial Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

The *statement of net position* presents information on all of the City’s assets and 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, composting, economic development, culture and recreation, and miscellaneous. The business-type activities of the City include water utility, sewer utility and refuse operations.

The government-wide financial statements can be found starting on page 31 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 18 individual governmental funds, 5 of which are Debt Service funds, which are reported as one fund for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Fire fund, Debt Service fund and the 2015 Construction fund all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

The basic governmental fund financial statements can be found starting on page 36 of this report.

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

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

The basic proprietary fund financial statements can be found starting on page 46 of this report.

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

**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 80 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 86 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$13,394,948 at the close of the most recent fiscal year.

A significant portion of the City's net position (38.6 percent) reflects its investment in capital assets (e.g., land, land improvements, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Madison Lake's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Current and other assets	\$ 9,210,270	\$ 8,526,032	\$ 684,238	\$ 1,220,328	\$ 1,480,259	\$ (259,931)
Capital assets	7,928,227	7,195,246	732,981	6,844,468	5,625,544	1,218,924
Total assets	17,138,497	15,721,278	1,417,219	8,064,796	7,105,803	958,993
Deferred outflows of resources	433,871	98,868	335,003	36,176	8,627	27,549
Long-term liabilities outstanding	6,858,365	5,183,937	1,674,428	4,793,552	3,671,988	1,121,564
Other liabilities	280,079	796,807	(516,728)	242,969	296,930	(53,961)
Total liabilities	7,138,444	5,980,744	1,157,700	5,036,521	3,968,918	1,067,603
Deferred inflows of resources	81,819	66,279	15,540	21,608	14,377	7,231
Net position						
Net investment in capital assets	2,069,988	2,237,163	(167,175)	3,100,194	3,002,259	97,935
Restricted	6,820,205	6,304,506	515,699	58,459	55,668	2,791
Unrestricted	1,461,912	1,231,454	230,458	(115,810)	73,208	(189,018)
Total net position	\$ 10,352,105	\$ 9,773,123	\$ 578,982	\$ 3,042,843	\$ 3,131,135	\$ (88,292)

An additional portion of the City's net position (51.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (10.0 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

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

**Governmental activities.** Governmental activities increased the City's net position by \$578,982. Key elements of this change can be seen in the following tables.

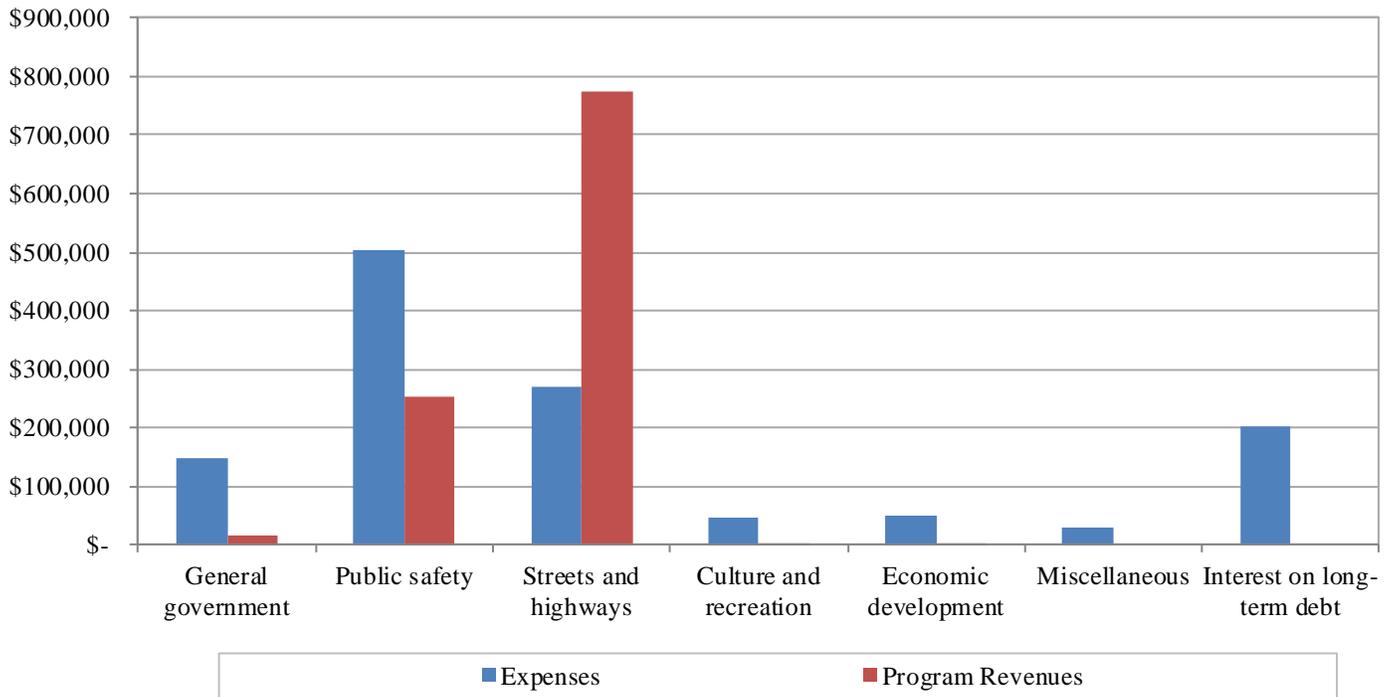
### City of Madison Lake's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 239,306	\$ 260,448	\$ (21,142)	\$ 675,108	\$ 699,133	\$ (24,025)
Operating grants and contributions	53,823	126,750	(72,927)	-	-	-
Capital grants and contributions	750,308	232,966	517,342	51,817	46,854	4,963
General revenues						
Property taxes/tax increments	571,181	514,559	56,622	-	-	-
Other taxes	13,343	13,960	(617)	-	-	-
Grants and contributions not restricted to specific programs	157,533	163,044	(5,511)	-	-	-
Investment earnings	8,643	3,324	5,319	1,636	2,496	(860)
Other	9,381	5,921	3,460	-	-	-
Total revenues	<u>1,803,518</u>	<u>1,320,972</u>	<u>482,546</u>	<u>728,561</u>	<u>748,483</u>	<u>(19,922)</u>
Expenses						
General government	149,006	161,891	(12,885)	-	-	-
Public safety	505,283	380,764	124,519	-	-	-
Streets and highways	270,224	274,886	(4,662)	-	-	-
Culture and recreation	46,952	79,844	(32,892)	-	-	-
Economic development	51,410	15,340	36,070	-	-	-
Miscellaneous	31,338	16,554	14,784	-	-	-
Interest on long-term debt	201,960	150,119	51,841	-	-	-
Water utility	-	-	-	244,105	263,065	(18,960)
Sewer utility	-	-	-	436,774	423,238	13,536
Refuse	-	-	-	104,337	88,285	16,052
Total expenses	<u>1,256,173</u>	<u>1,079,398</u>	<u>176,775</u>	<u>785,216</u>	<u>774,588</u>	<u>10,628</u>
Increase (decrease) in net position before transfers	547,345	241,574	305,771	(56,655)	(26,105)	(30,550)
Transfers	<u>31,637</u>	<u>(187,709)</u>	<u>219,346</u>	<u>(31,637)</u>	<u>187,709</u>	<u>(219,346)</u>
Change in net position	578,982	53,865	525,117	(88,292)	161,604	(249,896)
Net position - January 1	<u>9,773,123</u>	<u>9,719,258</u>	<u>53,865</u>	<u>3,131,135</u>	<u>2,969,531</u>	<u>161,604</u>
Net position - December 31	<u>\$ 10,352,105</u>	<u>\$ 9,773,123</u>	<u>\$ 578,982</u>	<u>\$ 3,042,843</u>	<u>\$ 3,131,135</u>	<u>\$ (88,292)</u>

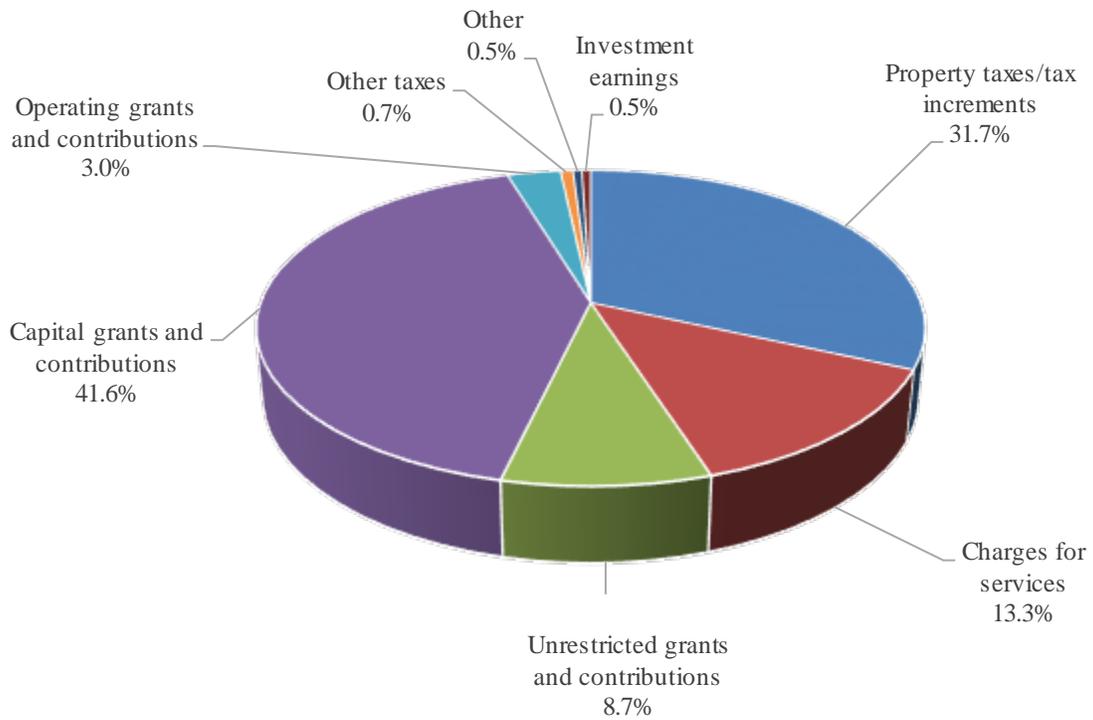
Property tax levies increased by \$39,361 (7.9 percent) during the year.

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

### Expenses and Program Revenues - Governmental Activities

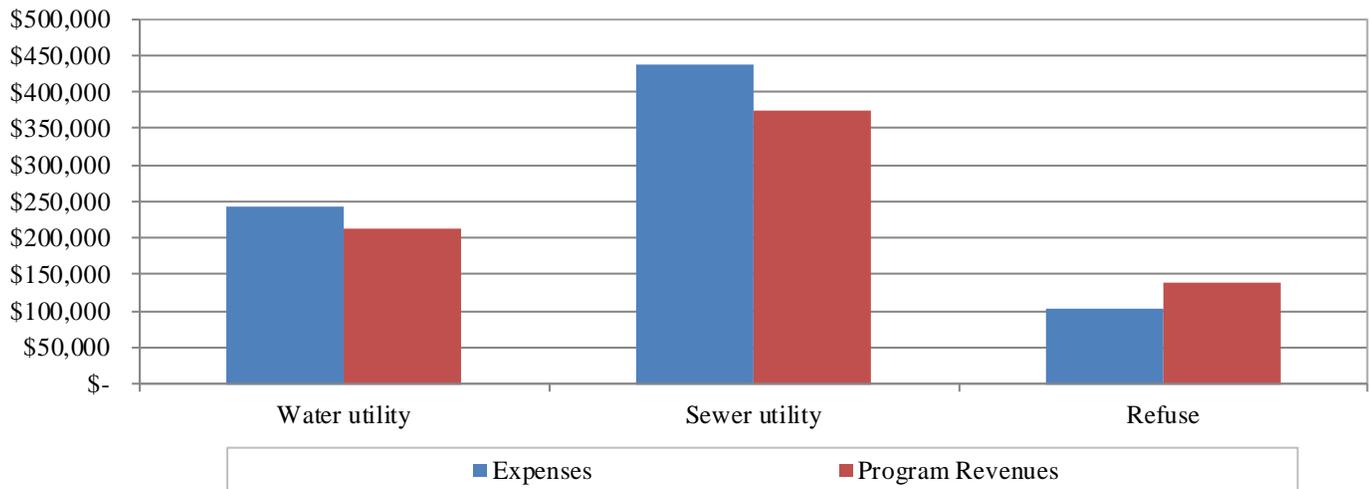


### Revenues by Source - Governmental Activities

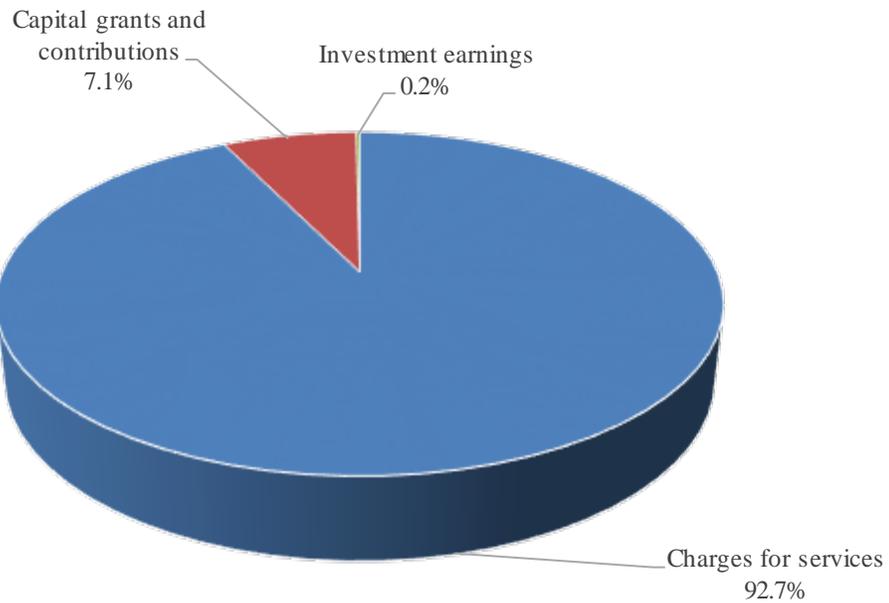


**Business-type activities.** Business-type activities decreased the City's net position by \$88,292.

### Expenses and Program Revenues - Business-type Activities



### Revenues by Source - Business-type Activities



## Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,493,936, an increase of \$1,112,901 in comparison with the prior year. There is a negative unassigned fund balance of \$88,881 due to the 2014 Construction fund and CSAH 26 Reconstruction with fund balance deficits of \$508,311 and \$261,494 respectively, which will be paid for by future bond proceeds. The remainder of fund balance is not available for new spending because it is either 1) restricted (\$3,975,140), or 2) assigned (\$1,607,677) 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 \$1,087,750. 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 163.6 percent of fund expenditures, while unassigned fund balance represents 102.4 percent of fund expenditures.

The fund balance of the City's *General fund* increased by \$63,445 during the current fiscal year. The key factor in this increase was due to an increase in state aids and a decrease in capital outlay expenditures.

The *Fire fund* has a total fund balance of \$681,949. The net increase in fund balance during the current year in the Fire fund was \$54,329. 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 \$3,129,001, 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 \$367,597. 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* increased by \$648,549 during the current fiscal year. The key factor in this increase was due to the issuance of 2016A G.O. improvement bonds to fund the costs associated with the 2016 Street and Utility Improvements Project.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to a negative \$115,810. The total decrease in net position for the funds was \$88,292. 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 \$55,098, and expenditures were under budget by \$8,347.

## 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, 2016, amounts to \$14,772,695 (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 15.2 percent increase (a 10.2 percent increase for governmental activities and a 21.7 percent increase for business-type activities).

- The design and engineering costs of the Public Works building were \$34,200.
- The reconstruction of 4<sup>th</sup> and 5<sup>th</sup> Street had total construction costs of \$2,211,315.
- Purchased a 2016 Case SV300 tractor with snow bucket for \$24,260.
- Purchased a 2011 Chevy 2055HD pickup for \$27,500.

Additional information on the City's capital assets can be found in Note 3C starting on page 60 of this report.

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

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Land	\$ 405,357	\$ 405,357	\$ -	\$ 47,313	\$ 47,313	\$ -
Land improvements	18,518	21,016	(2,498)	-	-	-
Buildings	148,106	168,861	(20,755)	-	-	-
Infrastructure	6,116,629	1,021,298	5,095,331	5,277,820	4,332,533	945,287
Machinery and equipment	193,427	198,472	(5,045)	20,926	23,734	(2,808)
Construction in progress	1,046,190	5,380,242	(4,334,052)	1,498,409	1,221,964	276,445
<b>Total</b>	<b>\$ 7,928,227</b>	<b>\$ 7,195,246</b>	<b>\$ 732,981</b>	<b>\$ 6,844,468</b>	<b>\$ 5,625,544</b>	<b>\$ 1,218,924</b>

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$9,917,613. Of this amount, \$6,197,114 is special assessment debt and \$3,720,499 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		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
G.O. improvement bonds	\$ 6,197,114	\$ 4,906,306	\$ 1,290,808	\$ -	\$ -	\$ -
General obligation revenue bonds	-	-	-	3,720,499	2,611,306	1,109,193
Loans payable	-	-	-	941,839	975,118	(33,279)
<b>Total</b>	<b>\$ 6,197,114</b>	<b>\$ 4,906,306</b>	<b>\$ 1,290,808</b>	<b>\$ 4,662,338</b>	<b>\$ 3,586,424</b>	<b>\$ 1,075,914</b>

The City's total debt increased by \$2,366,722, or 27.9 percent during the current fiscal year.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$6,379,342, which is in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3E starting on page 63 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The unemployment rate for Blue Earth County is currently 3.2 percent, which is an increase from a rate of 2.5 percent a year ago. This compares favorably to the State's average unemployment rate of 4.1 percent and the national average rate of 4.5 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.

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and temporary investments	\$ 5,563,262	\$ 1,057,665	\$ 6,620,927
Receivables			
Delinquent taxes	11,610	-	11,610
Accounts	36,079	80,934	117,013
Notes	56,576	-	56,576
Special assessments	3,386,835	39,664	3,426,499
Intergovernmental	30,356	42,065	72,421
Pension asset	125,552	-	125,552
Capital assets			
Capital assets not being depreciated	1,451,547	1,545,722	2,997,269
Capital assets net of accumulated depreciation	6,476,680	5,298,746	11,775,426
<b>TOTAL ASSETS</b>	<b>17,138,497</b>	<b>8,064,796</b>	<b>25,203,293</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension resources	433,871	36,176	470,047
<b>LIABILITIES</b>			
Accounts payable	182,039	181,136	363,175
Due to other governments	3,240	7,515	10,755
Accrued interest payable	87,742	43,254	130,996
Accrued salaries payable	7,058	4,198	11,256
Customer deposits payable	-	6,866	6,866
Noncurrent liabilities			
Due within one year	180,152	277,691	457,843
Due in more than one year	6,678,213	4,515,861	11,194,074
<b>TOTAL LIABILITIES</b>	<b>7,138,444</b>	<b>5,036,521</b>	<b>12,174,965</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension resources	81,819	21,608	103,427
<b>NET POSITION</b>			
Net investment in capital assets	2,069,988	3,100,194	5,170,182
Restricted for			
Debt service	6,400,139	-	6,400,139
Infrastructure	-	58,459	58,459
Farmers market	3,151	-	3,151
Economic development	415,363	-	415,363
Community service	1,552	-	1,552
Unrestricted	1,461,912	(115,810)	1,346,102
<b>TOTAL NET POSITION</b>	<b>\$ 10,352,105</b>	<b>\$ 3,042,843</b>	<b>\$ 13,394,948</b>

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

CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 149,006	\$ 15,740	\$ -	\$ -
Public safety	505,283	199,728	52,468	-
Streets and highways	270,224	22,411	600	750,308
Culture and recreation	46,952	-	755	-
Economic development	51,410	1,427	-	-
Miscellaneous	31,338	-	-	-
Interest on long-term debt	201,960	-	-	-
<b>Total governmental activities</b>	<b>1,256,173</b>	<b>239,306</b>	<b>53,823</b>	<b>750,308</b>
<b>Business-type activities</b>				
Water utility	244,105	205,875	-	8,166
Sewer utility	436,774	331,890	-	43,651
Refuse	104,337	137,343	-	-
<b>Total business-type activities</b>	<b>785,216</b>	<b>675,108</b>	<b>-</b>	<b>51,817</b>
<b>Total</b>	<b>\$ 2,041,389</b>	<b>\$ 914,414</b>	<b>\$ 53,823</b>	<b>\$ 802,125</b>

General revenues

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

Transfers

Total general revenues and transfers

Change in net position

Net position, January 1

Net position, December 31

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

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (133,266)		\$ (133,266)
(253,087)		(253,087)
503,095		503,095
(46,197)		(46,197)
(49,983)		(49,983)
(31,338)		(31,338)
(201,960)		(201,960)
<u>(212,736)</u>		<u>(212,736)</u>
-	\$ (30,064)	(30,064)
-	(61,233)	(61,233)
-	33,006	33,006
<u>-</u>	<u>(58,291)</u>	<u>(58,291)</u>
<u>(212,736)</u>	<u>(58,291)</u>	<u>(271,027)</u>
438,748	-	438,748
103,023	-	103,023
29,410	-	29,410
3,779	-	3,779
9,564	-	9,564
157,533	-	157,533
8,643	1,636	10,279
9,381	-	9,381
31,637	(31,637)	-
<u>791,718</u>	<u>(30,001)</u>	<u>761,717</u>
578,982	(88,292)	490,690
9,773,123	3,131,135	12,904,258
<u>\$ 10,352,105</u>	<u>\$ 3,042,843</u>	<u>\$ 13,394,948</u>

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

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**FUND FINANCIAL STATEMENTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

CITY OF MADISON LAKE, MINNESOTA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2016

	<u>Special Revenue</u>		
	<u>General</u>	<u>Fire</u>	<u>Debt Service</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 1,096,503	\$ 668,138	\$ 3,104,713
Receivables			
Loans	-	-	-
Delinquent taxes	10,831	-	-
Accounts	3,751	20,935	10,000
Special assessments	-	-	3,358,880
Intergovernmental	7,071	8,990	14,288
	<u>1,118,156</u>	<u>698,063</u>	<u>6,487,881</u>
<b>TOTAL ASSETS</b>	<b>\$ 1,118,156</b>	<b>\$ 698,063</b>	<b>\$ 6,487,881</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 12,549	\$ 15,944	\$ -
Due to other governments	138	-	-
Accrued salaries payable	6,888	170	-
	<u>19,575</u>	<u>16,114</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b>19,575</b>	<b>16,114</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - taxes	10,831	-	-
Unavailable revenue - special assessments	-	-	3,358,880
	<u>10,831</u>	<u>-</u>	<u>3,358,880</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>10,831</b>	<b>-</b>	<b>3,358,880</b>
<b>FUND BALANCES</b>			
Restricted	-	-	3,129,001
Assigned	406,826	681,949	-
Unassigned	680,924	-	-
	<u>1,087,750</u>	<u>681,949</u>	<u>3,129,001</u>
<b>TOTAL FUND BALANCES</b>	<b>1,087,750</b>	<b>681,949</b>	<b>3,129,001</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,118,156</b>	<b>\$ 698,063</b>	<b>\$ 6,487,881</b>

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

<u>Capital Projects</u> 2015 <u>Construction</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
\$ 507,336	\$ 186,572	\$ 5,563,262
-	56,576	56,576
-	779	11,610
-	1,393	36,079
-	27,955	3,386,835
-	7	30,356
<u>\$ 507,336</u>	<u>\$ 273,282</u>	<u>\$ 9,084,718</u>
\$ 81,263	\$ 72,283	\$ 182,039
-	3,102	3,240
-	-	7,058
<u>81,263</u>	<u>75,385</u>	<u>192,337</u>
-	779	11,610
-	27,955	3,386,835
-	28,734	3,398,445
426,073	420,066	3,975,140
-	518,902	1,607,677
-	(769,805)	(88,881)
<u>426,073</u>	<u>169,163</u>	<u>5,493,936</u>
<u>\$ 507,336</u>	<u>\$ 273,282</u>	<u>\$ 9,084,718</u>

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

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CITY OF MADISON LAKE, MINNESOTA  
 GOVERNMENTAL FUNDS  
 RECONCILIATION OF THE BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 DECEMBER 31, 2016

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

Total fund balances - governmental funds	\$ 5,493,936
Long-term assets from pensions related in governmental activities are not financial resources and therefore are not reported as assets in the funds.	125,552
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	7,928,227
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Compensated absences payable	(9,110)
Bonds payable	(6,197,114)
Bond premiums, net of accumulated amortization	(87,198)
Pension liability	(564,943)
Long-term assets are not available to pay current-period expenditures and, therefore, are unavailable in the funds.	
Delinquent taxes receivable	11,610
Special assessments receivable	3,386,835
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	433,871
Deferred inflows of pension resources	(81,819)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(87,742)</u>
Total net position - governmental activities	<u><u>\$ 10,352,105</u></u>

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

CITY OF MADISON LAKE, MINNESOTA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Special Revenue</u>		
	<u>General</u>	<u>Fire</u>	<u>Debt Service</u>
REVENUES			
Taxes	\$ 443,897	\$ -	\$ 78,023
Special assessments	-	-	584,152
Licenses and permits	45,807	-	-
Intergovernmental	184,968	22,916	-
Charges for services	3,476	113,180	-
Fines and forfeits	40,611	-	-
Investment earnings	6,531	202	82
Miscellaneous	18,961	5,123	-
<b>TOTAL REVENUES</b>	<b>744,251</b>	<b>141,421</b>	<b>662,257</b>
EXPENDITURES			
Current			
General government	128,636	-	-
Public safety	231,579	119,116	-
Streets and highways	109,664	-	-
Culture and recreation	30,473	-	-
Economic development	11,103	-	-
Miscellaneous	16,780	-	-
Capital outlay			
General government	16,611	-	-
Public safety	14,101	15,379	-
Streets and highways	98,041	-	-
Culture and recreation	7,551	-	-
Economic development	501	-	-
Debt service			
Principal	-	-	174,192
Interest and other	-	-	156,111
<b>TOTAL EXPENDITURES</b>	<b>665,040</b>	<b>134,495</b>	<b>330,303</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	79,211	6,926	331,954
OTHER FINANCING SOURCES (USES)			
Transfers in	45,000	47,403	84,415
Bonds issued	-	-	35,643
Premium on bonds issued	-	-	-
Transfers out	(60,766)	-	(84,415)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(15,766)</b>	<b>47,403</b>	<b>35,643</b>
NET CHANGE IN FUND BALANCES	63,445	54,329	367,597
FUND BALANCES, JANUARY 1	1,024,305	627,620	2,761,404
FUND BALANCES, DECEMBER 31	<u>\$ 1,087,750</u>	<u>\$ 681,949</u>	<u>\$ 3,129,001</u>

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

<u>Capital Projects</u> 2015 <u>Construction</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
\$ -	\$ 56,578	\$ 578,498
-	7,828	591,980
-	-	45,807
-	-	207,884
-	5,470	122,126
-	-	40,611
1,417	411	8,643
-	17,982	42,066
<u>1,417</u>	<u>88,269</u>	<u>1,637,615</u>
-	2,023	130,659
-	-	350,695
32,830	-	142,494
-	-	30,473
-	39,818	50,921
-	14,558	31,338
-	-	16,611
-	-	29,480
761,112	52,889	912,042
-	-	7,551
-	-	501
-	-	174,192
<u>26,429</u>	<u>-</u>	<u>182,540</u>
<u>820,371</u>	<u>109,288</u>	<u>2,059,497</u>
<u>(818,954)</u>	<u>(21,019)</u>	<u>(421,882)</u>
-	-	176,818
1,429,357	-	1,465,000
38,146	-	38,146
-	-	(145,181)
<u>1,467,503</u>	<u>-</u>	<u>1,534,783</u>
648,549	(21,019)	1,112,901
<u>(222,476)</u>	<u>190,182</u>	<u>4,381,035</u>
<u>\$ 426,073</u>	<u>\$ 169,163</u>	<u>\$ 5,493,936</u>

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

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CITY OF MADISON LAKE, MINNESOTA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Net change in fund balances - governmental funds	\$ 1,112,901
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	900,605
Depreciation expense	(167,624)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	174,192
Debt issued or incurred	(1,465,000)
Amortization expense	(35,421)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(22,145)
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	(81,938)
Direct aid contributions	1,549
<p>Certain revenues are recognized as soon as it is earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	6,026
Special assessments	158,328
<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	(2,491)
Change in net position - governmental activities	\$ 578,982

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

CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL AND FIRE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 453,240	\$ 453,240	\$ 443,897	\$ (9,343)
Licenses and permits	26,150	26,150	45,807	19,657
Intergovernmental	166,528	166,528	184,968	18,440
Charges for services	2,828	2,828	3,476	648
Fines and forfeits	30,500	30,500	40,611	10,111
Investment earnings	4,500	4,500	6,531	2,031
Miscellaneous	5,407	5,407	18,961	13,554
<b>TOTAL REVENUES</b>	<b>689,153</b>	<b>689,153</b>	<b>744,251</b>	<b>55,098</b>
EXPENDITURES				
Current				
General government	142,828	142,828	128,636	14,192
Public safety	210,676	210,676	231,579	(20,903)
Streets and highways	112,736	112,736	109,664	3,072
Culture and recreation	33,516	33,516	30,473	3,043
Economic development	17,731	17,731	11,103	6,628
Miscellaneous	14,800	14,800	16,780	(1,980)
Capital outlay				
General government	15,500	15,500	16,611	(1,111)
Public safety	8,100	8,100	14,101	(6,001)
Streets and highways	80,000	80,000	98,041	(18,041)
Culture and recreation	35,000	35,000	7,551	27,449
Economic development	500	500	501	(1)
Miscellaneous	2,000	2,000	-	2,000
<b>TOTAL EXPENDITURES</b>	<b>673,387</b>	<b>673,387</b>	<b>665,040</b>	<b>8,347</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	15,766	15,766	79,211	63,445
OTHER FINANCING SOURCES (USES)				
Transfers in	45,000	45,000	45,000	-
Transfers out	(60,766)	(60,766)	(60,766)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(15,766)</b>	<b>(15,766)</b>	<b>(15,766)</b>	<b>-</b>
NET CHANGE IN FUND BALANCES	-	-	63,445	63,445
FUND BALANCES, JANUARY 1	1,024,305	1,024,305	1,024,305	-
FUND BALANCES, DECEMBER 31	<u>\$ 1,024,305</u>	<u>\$ 1,024,305</u>	<u>\$ 1,087,750</u>	<u>\$ 63,445</u>

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

Fire

Budgeted Amounts		Actual Amounts	Variance with Final Budget
Original	Final		
\$ -	\$ -	\$ -	\$ -
-	-	-	-
16,000	16,000	22,916	6,916
119,062	119,062	113,180	(5,882)
-	-	-	-
50	50	202	152
60	60	5,123	5,063
<u>135,172</u>	<u>135,172</u>	<u>141,421</u>	<u>6,249</u>
-	-	-	-
122,775	122,775	119,116	3,659
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
69,800	69,800	15,379	54,421
-	-	-	-
-	-	-	-
-	-	-	-
<u>192,575</u>	<u>192,575</u>	<u>134,495</u>	<u>58,080</u>
<u>(57,403)</u>	<u>(57,403)</u>	<u>6,926</u>	<u>64,329</u>
47,403	47,403	47,403	-
-	-	-	-
<u>47,403</u>	<u>47,403</u>	<u>47,403</u>	<u>-</u>
(10,000)	(10,000)	54,329	64,329
<u>627,620</u>	<u>627,620</u>	<u>627,620</u>	<u>-</u>
<u>\$ 617,620</u>	<u>\$ 617,620</u>	<u>\$ 681,949</u>	<u>\$ 64,329</u>

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

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	601 Water Utility	602 Sewer Utility	603 Refuse	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and temporary investments	\$ 149,450	\$ 830,980	\$ 77,235	\$ 1,057,665
Receivables				
Accounts	25,937	44,357	10,640	80,934
Delinquent special assessments	1,332	2,146	884	4,362
Intergovernmental	41,664	284	117	42,065
<b>TOTAL CURRENT ASSETS</b>	<b>218,383</b>	<b>877,767</b>	<b>88,876</b>	<b>1,185,026</b>
<b>NONCURRENT ASSETS</b>				
Noncurrent special assessments receivable	-	35,302	-	35,302
Capital assets				
Land	35,471	11,842	-	47,313
Construction in progress	1,133,762	364,647	-	1,498,409
Buildings	12,572	-	-	12,572
Infrastructure	3,511,740	6,039,647	-	9,551,387
Machinery and equipment	22,849	42,341	-	65,190
Less accumulated depreciation	(1,043,193)	(3,287,210)	-	(4,330,403)
Total capital assets, net of depreciation	3,673,201	3,171,267	-	6,844,468
<b>TOTAL NONCURRENT ASSETS</b>	<b>3,673,201</b>	<b>3,206,569</b>	<b>-</b>	<b>6,879,770</b>
<b>TOTAL ASSETS</b>	<b>3,891,584</b>	<b>4,084,336</b>	<b>88,876</b>	<b>8,064,796</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred pension resources	16,089	16,089	3,998	36,176
<b>CURRENT LIABILITIES</b>				
Accounts payable	127,493	39,555	14,088	181,136
Due to other governments	-	7,515	-	7,515
Accrued salaries payable	1,860	1,860	478	4,198
Accrued interest payable	12,217	31,037	-	43,254
Customer deposits payable	6,866	-	-	6,866
Loans payable - current	-	101,727	-	101,727
Compensated absences payable - current	1,787	1,787	478	4,052
Bonds payable - current	97,302	74,610	-	171,912
<b>TOTAL CURRENT LIABILITIES</b>	<b>247,525</b>	<b>258,091</b>	<b>15,044</b>	<b>520,660</b>
<b>NONCURRENT LIABILITIES</b>				
Loans payable - net of current portion	-	840,111	-	840,111
Pension liability	45,981	45,981	11,426	103,388
Bonds payable - net of current portion	2,320,624	1,251,738	-	3,572,362
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>2,366,605</b>	<b>2,137,830</b>	<b>11,426</b>	<b>4,515,861</b>
<b>TOTAL LIABILITIES</b>	<b>2,614,130</b>	<b>2,395,921</b>	<b>26,470</b>	<b>5,036,521</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred pension resources	9,610	9,610	2,388	21,608
<b>NET POSITION</b>				
Net investment in capital assets	1,255,275	1,844,919	-	3,100,194
Restricted for				
Infrastructure	-	58,459	-	58,459
Unrestricted	28,658	(208,484)	64,016	(115,810)
<b>TOTAL NET POSITION</b>	<b>\$ 1,283,933</b>	<b>\$ 1,694,894</b>	<b>\$ 64,016</b>	<b>\$ 3,042,843</b>

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

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	601 Water Utility	602 Sewer Utility	603 Refuse	Total
OPERATING REVENUES				
Charges for services	\$ 205,667	\$ 331,706	\$ 137,297	\$ 674,670
OPERATING EXPENSES				
Salaries and benefits	61,493	57,012	17,035	135,540
Supplies	14,509	5,849	538	20,896
Other services and charges	14,109	117,609	86,764	218,482
Insurance	1,482	3,910	-	5,392
Utilities	13,566	19,062	-	32,628
Depreciation	102,684	178,395	-	281,079
TOTAL OPERATING EXPENSES	207,843	381,837	104,337	694,017
OPERATING INCOME (LOSS)	(2,176)	(50,131)	32,960	(19,347)
NONOPERATING REVENUES (EXPENSES)				
Investment income	1,267	369	-	1,636
Other income	208	184	46	438
Interest and fees	(33,671)	(49,612)	-	(83,283)
Amortization expense	221	410	-	631
Bond issuance costs	(2,812)	(5,735)	-	(8,547)
TOTAL NONOPERATING REVENUES (EXPENSES)	(34,787)	(54,384)	46	(89,125)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(36,963)	(104,515)	33,006	(108,472)
CONNECTION AND INFRASTRUCTURE FEES	8,166	43,651	-	51,817
TRANSFERS IN	-	13,363	-	13,363
TRANSFERS OUT	-	-	(45,000)	(45,000)
CHANGE IN NET POSITION	(28,797)	(47,501)	(11,994)	(88,292)
NET POSITION, JANUARY 1	1,312,730	1,742,395	76,010	3,131,135
NET POSITION, DECEMBER 31	<u>\$ 1,283,933</u>	<u>\$ 1,694,894</u>	<u>\$ 64,016</u>	<u>\$ 3,042,843</u>

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

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			Totals
	601 Water Utility	602 Sewer Utility	603 Refuse	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 207,015	\$ 332,800	\$ 138,697	\$ 678,512
Payments to suppliers and vendors	(51,135)	(145,186)	(78,157)	(274,478)
Payments to and on behalf of employees	(56,654)	(52,173)	(13,518)	(122,345)
Other receipts	208	184	46	438
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>99,434</b>	<b>135,625</b>	<b>47,068</b>	<b>282,127</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	-	13,363	-	13,363
Transfers to other funds	-	-	(45,000)	(45,000)
Increase (decrease) in customer deposits	2,918	-	-	2,918
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>2,918</b>	<b>13,363</b>	<b>(45,000)</b>	<b>(28,719)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Connection and infrastructure fees received	8,166	43,651	-	51,817
Acquisition of capital assets	(1,195,713)	(374,215)	-	(1,569,928)
Proceeds from bonds issued, net of premiums (discounts)	898,207	333,808	-	1,232,015
Principal paid on bonds	(75,033)	(110,129)	-	(185,162)
Interest paid on bonds	(34,217)	(38,599)	-	(72,816)
Bond issuance costs	(2,812)	(5,735)	-	(8,547)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(401,402)</b>	<b>(151,219)</b>	<b>-</b>	<b>(552,621)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on cash and investments	1,267	369	-	1,636
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(297,783)</b>	<b>(1,862)</b>	<b>2,068</b>	<b>(297,577)</b>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<b>447,233</b>	<b>832,842</b>	<b>75,167</b>	<b>1,355,242</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>\$ 149,450</b>	<b>\$ 830,980</b>	<b>\$ 77,235</b>	<b>\$ 1,057,665</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (2,176)	\$ (50,131)	\$ 32,960	\$ (19,347)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	208	184	46	438
Depreciation	102,684	178,395	-	281,079
(Increase) decrease in assets				
Accounts receivable	637	192	935	1,764
Due from other governments	711	902	465	2,078
(Increase) decrease in deferred outflows of resources				
Deferred pension resources	(12,146)	(12,146)	(3,257)	(27,549)
Increase (decrease) in liabilities				
Accounts and contracts payable	(7,469)	1,244	9,145	2,920
Accrued salaries payable	706	706	117	1,529
Compensated absences	892	892	398	2,182
Pension liability	12,348	12,348	5,106	29,802
Increase (decrease) in deferred inflows of resources				
Deferred pension resources	3,039	3,039	1,153	7,231
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 99,434</b>	<b>\$ 135,625</b>	<b>\$ 47,068</b>	<b>\$ 282,127</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Capital assets acquired on account	\$ 118,118	\$ 37,369	\$ -	\$ 155,487
Amortization of bond premium	(221)	(410)	-	(631)
Bond proceeds receivable in due from other governments	41,488	-	-	41,488
Adjustment related to due to other governments related to capital project	176,803	40,872	-	217,675

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

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

**B. Government-wide and fund financial statements**

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

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

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

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

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

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

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

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

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

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

The City reports the following major governmental funds:

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

The *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.

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

The *2015 Construction fund* accounts for costs associated with 2016 street and utility improvement project.

The City reports the following major proprietary funds:

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

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

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

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

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

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

**D. Assets, 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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUE**

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).

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:

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

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

***Property taxes***

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

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

***Accounts receivable***

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2016. All enterprise fund trade receivables are considered collectible because the City annually certifies delinquent accounts to the County for collection.

***Special assessments***

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

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Prepaid items*

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

*Capital assets*

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

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using the appropriate price-level index to deflate the cost to the acquisition year or estimate acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. In the case of donations the City values these capital assets at the 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 the straight line method over the following estimated useful lives:

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

*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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*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.

*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.

*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 THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Fund balance***

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

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

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

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

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

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

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

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

***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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

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

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

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Administrator/Clerk. The legal level of budgetary control is the department level. Budgeted amounts are originally adopted or as amended by the Council. There were no budget amendments during 2016.

**B. Deficit fund equity**

The following funds had fund equity deficits at December 31, 2016:

Nonmajor	
Capital projects	
2014 Construction	\$ 508,311
CSAH 26 Reconstruction	261,494

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

*Deposits*

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

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year-end, the City's carrying amount of deposits was \$1,782,325 and the bank balance was \$1,919,771. The bank balance was covered by federal depository insurance of \$500,000 and \$1,206,059 was collateralized with securities held by the pledging financial institution's trust department in the City's name. There was an insufficient amount of collateral to cover the remaining \$213,712.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

***Investments***

As of December 31, 2016, 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>Types of Investments</u>	<u>Credit Quality/ Ratings (1)</u>	<u>Segmented Time Distribution (2)</u>	<u>Amount</u>	<u>Fair Value Measurement Using Level 1</u>
Pooled investments at amortized costs				
4M Fund	N/A	less than 6 months	\$ 4,669,069	
Broker Money Market Funds	N/A	less than 6 months	22,765	
Non-pooled investments at fair value				
Government Agency Securities	N/A	less than 6 months	<u>146,544</u>	<u>\$ 146,544</u>
			<u>\$ 4,838,378</u>	<u>\$ 146,544</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 THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

*Cash on hand*

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

*Cash and investments summary*

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

Petty cash	\$ 224
Deposits	1,782,325
Investments	<u>4,838,378</u>
Total	<u><u>\$ 6,620,927</u></u>

**B. Notes and contracts receivable**

The City received funds from Federal, State and County to be used for community development. These funds were borrowed for improvements to existing businesses and are to be paid back to the City with interest at 3.00 percent over 20 years. The balance on these loans at December 31, 2016 was \$56,576.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**C. Capital assets**

Capital asset activity for the City for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 405,357	\$ -	\$ -	\$ 405,357
Construction in progress	5,380,242	834,626	(5,168,678)	1,046,190
Total capital assets not being depreciated	<u>5,785,599</u>	<u>834,626</u>	<u>(5,168,678)</u>	<u>1,451,547</u>
Capital assets being depreciated				
Land improvements	37,509	-	-	37,509
Buildings	919,176	3,602	-	922,778
Infrastructure	2,712,349	5,168,678	-	7,881,027
Machinery and equipment	436,334	38,117	-	474,451
Vehicles	581,608	24,260	-	605,868
Total capital assets being depreciated	<u>4,686,976</u>	<u>5,234,657</u>	<u>-</u>	<u>9,921,633</u>
Less accumulated depreciation for				
Land improvements	(16,493)	(2,498)	-	(18,991)
Buildings	(750,315)	(24,357)	-	(774,672)
Infrastructure	(1,691,051)	(73,347)	-	(1,764,398)
Machinery and equipment	(330,074)	(32,761)	-	(362,835)
Vehicles	(489,396)	(34,661)	-	(524,057)
Total accumulated depreciation	<u>(3,277,329)</u>	<u>(167,624)</u>	<u>-</u>	<u>(3,444,953)</u>
Total capital assets being depreciated, net	<u>1,409,647</u>	<u>5,067,033</u>	<u>-</u>	<u>6,476,680</u>
Governmental activities capital assets, net	<u>\$ 7,195,246</u>	<u>\$ 5,901,659</u>	<u>\$ (5,168,678)</u>	<u>\$ 7,928,227</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 47,313	\$ -	\$ -	\$ 47,313
Construction in progress	1,221,964	1,500,003	(1,223,558)	1,498,409
Total capital assets not being depreciated	<u>1,269,277</u>	<u>1,500,003</u>	<u>(1,223,558)</u>	<u>1,545,722</u>
Capital assets being depreciated				
Buildings	12,572	-	-	12,572
Infrastructure	8,327,829	1,223,558	-	9,551,387
Machinery and equipment	65,190	-	-	65,190
Total capital assets being depreciated	<u>8,405,591</u>	<u>1,223,558</u>	<u>-</u>	<u>9,629,149</u>
Less accumulated depreciation for				
Buildings	(12,572)	-	-	(12,572)
Infrastructure	(3,995,296)	(278,271)	-	(4,273,567)
Machinery and equipment	(41,456)	(2,808)	-	(44,264)
Total accumulated depreciation	<u>(4,049,324)</u>	<u>(281,079)</u>	<u>-</u>	<u>(4,330,403)</u>
Total capital assets being depreciated, net	<u>4,356,267</u>	<u>942,479</u>	<u>-</u>	<u>5,298,746</u>
Business-type activities capital assets, net	<u>\$ 5,625,544</u>	<u>\$ 2,442,482</u>	<u>\$ (1,223,558)</u>	<u>\$ 6,844,468</u>

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

<b>Governmental activities</b>		
General government		\$ 19,688
Public safety		47,323
Streets and highways		91,527
Culture and recreation		9,086
Total depreciation expense - governmental activities		<u>\$ 167,624</u>
<b>Business-type activities</b>		
Water utility		\$ 102,684
Sewer utility		178,395
Total depreciation expense - business-type activities		<u>\$ 281,079</u>

**Intangibles - sewer hookup rights**

The City entered into a Sanitary Sewer System Interconnection agreement with the City of Mankato. The City of Mankato is required to operate and maintain the interconnection and is owned by the City of Mankato. The City is making payments to the City of Mankato to help with the construction costs; total cost to the City is \$1,210,829. The City will also reimburse the City of Mankato for all costs associated with maintenance of the lift station and forcemain based on the City's flow percentage received at the lift station. The City has decided to amortize these sewer hookup rights over 20 years, amortizing \$60,541 per year. The balance of the hookup rights at December 31, 2016 was \$908,124 and is included with the City's infrastructure capital assets.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**D. Interfund transfers**

	Transfer In				Total
	General Fund	Fire Fund	Debt Service Fund	Sewer Utility Fund	
Transfer out					
General fund	\$ -	\$ 47,403	\$ -	\$ 13,363	\$ 60,766
Debt Service fund		-	84,415		84,415
Refuse fund	45,000	-	-	-	45,000
<b>Total transfers out</b>	<u>\$ 45,000</u>	<u>\$ 47,403</u>	<u>\$ 84,415</u>	<u>\$ 13,363</u>	<u>\$ 190,181</u>

The City made the following transfers for the year ended December 31, 2016:

- From the Refuse fund (\$45,000) to the General fund to transfer profits. The General fund supports street maintenance; garbage trucks contribute to street breakdown.
- From the General fund (\$47,403) to the Fire fund which is the City's portion of the Fire fund's annual operating budget.
- From the CSAH26 Reconstruction fund (\$84,415) to the G.O. Improvement Bonds 2014A fund to close the fund.
- From the Sewer Utility fund (\$13,363) to the General fund for operations.

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**E. Long-term debt**

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

G.O. special assessment (improvement) bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2006A	\$ 140,000	4.25 %	11/01/06	02/01/18	\$ 30,000
G.O. Improvement Bonds of 2014A	3,066,306	3.00 - 3.50	07/14/14	02/01/35	2,997,114
G.O. Improvement Bonds of 2014B	1,765,000	3.00 - 3.63	07/14/14	02/01/35	1,705,000
G.O. Improvement Bonds of 2016A	1,465,000	2.00 - 3.00	05/31/16	02/01/37	<u>1,465,000</u>
Total G.O. Special Assessment Bonds					<u>\$ 6,197,114</u>

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

Year Ending December 31,	<b>G.O. Special Assessment Bonds</b>		
	Governmental Activities		
	Principal	Interest	Total
2017	\$ 171,042	\$ 196,981	\$ 368,023
2018	281,101	178,161	459,262
2019	269,743	170,404	440,147
2020	269,743	162,912	432,655
2021	278,384	155,315	433,699
2022 - 2026	1,485,622	655,805	2,141,427
2027 - 2031	1,689,873	427,886	2,117,759
2032 - 2036	1,656,606	133,725	1,790,331
2037	<u>95,000</u>	<u>975</u>	<u>95,975</u>
Total	<u>\$ 6,197,114</u>	<u>\$ 2,082,164</u>	<u>\$ 8,279,278</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

G.O. revenue bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Sewer Revenue					
Bonds of 1995A (PFA)	\$ 400,400	0.00 %	09/25/95	02/20/17	\$ 7,538
G.O. Sewer Revenue					
Refunding Bonds, 2007A	235,000	3.95	12/01/07	02/01/17	30,000
G.O. Revenue Note (PFA) of 2009	320,500	1.88	06/01/09	08/20/29	221,000
G.O. Revenue Note (PFA) of 2010	596,692	1.86	05/17/10	08/20/29	427,000
G.O. Revenue Note (PFA) of 2011	820,008	1.91	08/08/11	08/20/31	656,000
G.O. Revenue Water & Sewer					
Bonds of 2014A	1,143,694	3.00 - 3.50	07/14/14	02/01/35	1,117,886
G.O. Revenue Water & Sewer					
Bonds of 2016A	485,000	2.00 - 3.00	05/31/16	02/01/37	485,000
G.O. Revenue Note (PFA) of 2016 *	831,417	1.05	11/23/16	08/20/36	<u>776,075</u>
 Total G.O. Revenue Bonds					 <u><u>\$ 3,720,499</u></u>

\* Includes undrawn proceeds of \$55,342

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

December 31,	<b>G.O. Revenue Bonds</b> Business-type Activities		
	Principal	Interest	Total
2017	\$ 171,912	\$ 77,236	\$ 249,148
2018	191,899	76,849	268,748
2019	195,257	72,968	268,225
2020	197,257	69,024	266,281
2021	200,616	65,035	265,651
2022 - 2026	1,063,378	262,713	1,326,091
2027 - 2031	1,063,127	149,271	1,212,398
2032 - 2036	662,395	44,426	706,821
2037	<u>30,000</u>	<u>900</u>	<u>30,900</u>
 Total	 <u><u>\$ 3,775,841</u></u>	 <u><u>\$ 818,422</u></u>	 <u><u>\$ 4,594,263</u></u>

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

	Water Utility	Sewer Utility
Revenues	\$ 205,667	\$ 331,706
Principal and interest	109,250	148,728
Percentage of revenues	53.1%	44.8%

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Loans payable

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Loan with City of Mankato	\$ 1,210,829	1.88 %	08/01/12	08/01/28	<u>\$ 941,839</u>

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

Year Ending December 31,	<b>Loans</b> Business-type Activities		
	Principal	Interest	Total
2017	\$ 101,727	\$ 16,774	\$ 118,501
2018	69,423	15,486	84,909
2019	70,736	14,173	84,909
2020	72,074	12,836	84,910
2021	73,436	11,473	84,909
2022 - 2026	388,543	36,003	424,546
2027 - 2028	<u>165,900</u>	<u>3,920</u>	<u>169,820</u>
Total	<u>\$ 941,839</u>	<u>\$ 110,665</u>	<u>\$ 1,052,504</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
General obligation special assessment bonds	\$ 4,906,306	\$ 1,465,000	\$ (174,192)	\$ 6,197,114	\$ 171,042
Bond premiums	51,777	38,146	(2,725)	87,198	-
Total bonds payable	4,958,083	1,503,146	(176,917)	6,284,312	171,042
Pension liability					
GERF	71,525	25,899	(14,062)	83,362	-
PEPPF	147,710	353,679	(19,808)	481,581	-
Compensated absences payable	6,619	16,688	(14,197)	9,110	9,110
Governmental activities long-term liabilities	<u>\$ 5,183,937</u>	<u>\$ 1,899,412</u>	<u>\$ (224,984)</u>	<u>\$ 6,858,365</u>	<u>\$ 180,152</u>
<b>Business-type activities</b>					
Bonds payable					
General obligation revenue bonds	\$ 2,611,306	\$ 1,261,076	\$ (151,883)	\$ 3,720,499	\$ 171,912
Bond premiums	11,978	12,427	(631)	23,774	-
Total bonds payable	2,623,284	1,273,503	(152,514)	3,744,273	171,912
Pension liability					
GERF	73,586	35,328	(5,526)	103,388	-
Compensated absences payable	1,870	7,617	(5,435)	4,052	4,052
Loans payable	975,118	-	(33,279)	941,839	101,727
Business-type activities long-term liabilities	<u>\$ 3,673,858</u>	<u>\$ 1,316,448</u>	<u>\$ (196,754)</u>	<u>\$ 4,793,552</u>	<u>\$ 277,691</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**F. Components of fund balance**

At December 31, 2016, portions of the City's fund balance are not available for appropriation due to legal restrictions (Restricted) or policy and/or intent (Assigned). The following is a summary of the components of fund balance:

	General	Fire	Debt Service	2015 Construction	Other Governmental Funds	Total Governmental Funds
Restricted for						
Debt service	\$ -	\$ -	\$ 3,129,001	\$ -	\$ -	\$ 3,129,001
Farmers market	-	-	-	-	3,151	3,151
Economic development	-	-	-	-	415,363	415,363
Capital outlay	-	-	-	426,073	-	426,073
Community service	-	-	-	-	1,552	1,552
<b>Total restricted</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,129,001</b>	<b>\$ 426,073</b>	<b>\$ 420,066</b>	<b>\$ 3,975,140</b>
Assigned for						
Administration	\$ 3,936	\$ -	\$ -	\$ -	\$ -	\$ 3,936
City hall	10,942	-	-	-	-	10,942
Police car and equipment	24,562	-	-	-	-	24,562
Police building	43,600	-	-	-	-	43,600
Police forfeitures	3,249	-	-	-	-	3,249
Civil defense	18,100	-	-	-	-	18,100
Public works truck and equipment	100,731	-	-	-	-	100,731
Street improvement	44,471	-	-	-	-	44,471
Park playground	13,803	-	-	-	-	13,803
Park maintenance equipment	17,821	-	-	-	-	17,821
Park land dedication	40,983	-	-	-	-	40,983
Park building	46,000	-	-	-	-	46,000
City signs	3,309	-	-	-	-	3,309
Holiday light	7,501	-	-	-	-	7,501
Farmers market	-	-	-	-	200	200
Economic development	17,168	-	-	-	84	17,252
Street lights	10,650	-	-	-	-	10,650
Capital outlay	-	-	-	-	518,618	518,618
Fire truck	-	226,139	-	-	-	226,139
Fire equipment	-	110,871	-	-	-	110,871
Fire building and rent	-	148,228	-	-	-	148,228
Fire department operations	-	196,711	-	-	-	196,711
<b>Total assigned</b>	<b>\$ 406,826</b>	<b>\$ 681,949</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 518,902</b>	<b>\$ 1,607,677</b>
Unassigned	\$ 680,924	\$ -	\$ -	\$ -	\$ (769,805)	\$ (88,881)

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE**

**A. Plan description**

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

General Employees Retirement Fund (GERF)

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

Public Employees Police and Fire Fund (PEPFF)

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

**B. Benefits provided**

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

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

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

GERF benefits

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

PEPFF benefits

Benefits for the PEPFF members first hired after June 30, 2010 but before July 1, 2014 vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service.

For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED**

**C. Contributions**

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

GERF contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the years ending December 31, 2016, 2015 and 2014 were \$11,497, \$12,788 and \$11,879, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

PEPFF contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2016. The City's contributions to the PEPFF for the years ending December 31, 2016, 2015 and 2014 were \$22,212, \$21,710 and \$15,902, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**D. Pension costs**

GERF pension costs

At December 31, 2016, the City reported a liability of \$186,750 for its proportionate share of the GERF'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 2016. 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 \$2,512. The net pension liability was measured as of June 30, 2016, 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0023 percent which was a 0.0005 percent decrease from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$15,443 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$749 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED**

At December 31, 2016, the City reported its proportionate share of GERP's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 561	\$ 12,868
Changes in actuarial assumptions	39,962	-
Net difference between projected and actual earnings on plan investments	18,656	-
Changes in proportion	-	26,163
Contributions to GERP subsequent to the measurement date	6,170	-
Total	<u>\$ 65,349</u>	<u>\$ 39,031</u>

Deferred outflows of resources totaling \$6,170 related to pensions resulting from the City's contributions to GERP 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 and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

2017	\$ 3,576
2018	(1,614)
2019	11,440
2020	6,746
2021	-
Thereafter	-

PEPPF pension costs

At December 31, 2016, the City reported a liability of \$481,581 for its proportionate share of the PEPPF's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0120 percent which was a 0.0010 percent decrease from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$81,943 for its proportionate share of PEPPF's pension expense. The City also recognized \$1,080 for the year ended December 31, 2016 as pension expense (and an offsetting reduction of net pension liability) for its proportion share of the State of Minnesota's on-behalf contributions to the plan. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPPF each year, starting in fiscal year 2014.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED**

At December 31, 2016, the City reported its proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 81	\$ 53,522
Changes in actuarial assumptions	284,390	-
Net difference between projected and actual earnings on plan investments	40,233	-
Changes in proportion	26,829	10,874
Contributions to PEPFF subsequent to the measurement date	11,439	-
	<u>11,439</u>	<u>-</u>
Total	<u>\$ 362,972</u>	<u>\$ 64,396</u>

Deferred outflows of resources totaling \$11,439 related to pensions resulting from the City's contributions to PEPFF 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 and inflows of resources related to PEPFF pensions will be recognized in pension expense as follows:

2017	\$ 55,660
2018	55,659
2019	72,979
2020	59,519
2021	43,320
Thereafter	-

**E. Actuarial assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active member payroll growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the GERS and RP-2000 tables for the PEPFF for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the GERS and PEPFF.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERS was completed in 2015. The experience study for PEPFF was for the period July 1, 2004 through June 30, 2009.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED**

The following changes in actuarial assumptions occurred in 2016:

GERF

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

PEPF

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent.
- The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	2.00	0.50
 Total	 <u>100.00 %</u>	

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED**

**F. Discount rate**

The discount rate used to measure the total pension liability was 7.50 percent, a reduction from the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF 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.

In the PEPFF, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ended June 30, 2057 for the PEPFF, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the PEPFF was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent after.

**G. 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERF	\$ 265,238	\$ 186,750	\$ 122,094
	1 Percent Decrease (4.60%)	Current (5.60%)	1 Percent Increase (6.60%)
PEPFF	\$ 674,149	\$ 481,581	\$ 324,238

**H. Pension plan fiduciary net position**

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION**

**A. Plan description**

All members of the Madison Lake Fire Department (the Department) are covered by a defined benefit plan administered by the Madison Lake Fire Department Relief Association (the Association). As of December 31, 2015, 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.

**B. 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.

**C. 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 THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION - CONTINUED**

**D. Pension costs**

At December 31, 2016, the City reported a net pension asset of \$125,552 for the plan. The net pension asset was measured as of December 31, 2015. 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, 2015. 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)
Beginning balance January 1, 2015	\$ 247,486	\$ 427,182	\$ (179,696)
Changes for the year			
Service cost	11,501	-	11,501
Interest on pension liability (asset)	15,929	-	15,929
Plan changes	45,624	-	45,624
Municipal contributions	-	5,081	(5,081)
Projected investment earnings	-	28,842	(28,842)
Contributions (nonemployer)	-	18,120	(18,120)
Asset (gain)/loss	-	(33,133)	33,133
Benefit payouts	(23,000)	(23,000)	-
Total net changes	50,054	(4,090)	54,144
Ending balance December 31, 2015	\$ 297,540	\$ 423,092	\$ (125,552)

For the year ended December 31, 2016, the City recognized pension expense of \$44,190.

At December 31, 2016, 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
Net difference between projected and actual earnings on plan investments	\$ 24,910	\$ -
State aid to City subsequent to the measurement date	16,816	-
Total	\$ 41,726	\$ -

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION - CONTINUED**

Deferred outflows of resources totaling \$16,816 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, 2016. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2017	\$	6,095
2018		6,095
2019		6,095
2020		6,625
2021		-
Thereafter		-

**E. Actuarial assumptions**

The total pension liability at December 31, 2015 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 2015.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	10.00 %	2.00 %
Fixed income	6.00	4.50
Equities	83.00	7.50
Other	<u>1.00</u>	6.00
Total	<u><u>100.00 %</u></u>	

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION - CONTINUED**

**F. Discount rate**

The discount rate used to measure the total pension liability was 6.0 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.

**G. 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:

	1 Percent Decrease (5.75%)	Current (6.75%)	1 Percent Increase (7.75%)
Defined benefit plan	\$ (115,917)	\$ (125,552)	\$ 13,743

**H. 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.

**Note 6: OTHER INFORMATION**

**A. Risk management**

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

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

The City has accrued penalties and fees in the amount of \$15,937 relating to the late payment of various payroll and tax disbursements during the year. The City is attempting to receive refunds through reimbursement or restitution.

**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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 6: OTHER INFORMATION - CONTINUED**

**C. Legal debt margin**

The City's statutory debt limit is 3 percent of the estimated taxable market value of real and personal property located in the City. The taxable market value was \$108,344,700 at December 31, 2016 for a limit of \$6,379,342 (net of debt service reserves). The City currently has no general obligation debt subject to the limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

**D. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2016 was \$157,533 for LGA. This accounted for 21 percent of General fund revenues.

**E. 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.

**Note 7: SUBSEQUENT EVENTS**

On February 6, 2017, the City approved the issuance of a \$350,000 general obligation utility revenue note, series 2017A with a closing date of March 1, 2017. The note will be funding the construction of a new public works garage. This will be a 15 year term note with a 3.5 percent fixed rate.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

CITY OF MADISON LAKE, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED DECEMBER 31, 2016

**Schedule of employer's share of PERA net pension liability - General Employees Retirement Fund**

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.0023 %	\$ 186,750	\$ 2,512	\$ 189,262	\$ 170,605	109.5 %	68.9 %
06/30/15	0.0028	145,111	-	145,111	163,848	88.6	78.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of employer's PERA contributions - General Employees Retirement Fund**

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/16	\$ 11,497	\$ 11,497	\$ -	\$ 153,290	7.5 %
12/31/15	12,788	12,788	-	170,507	7.5

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

CITY OF MADISON LAKE, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
 FOR THE YEAR ENDED DECEMBER 31, 2016

**Schedule of employer's share of PERA net pension liability - Public Employees Police and Fire Fund**

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.0120 %	\$ 481,581	\$ -	\$ 481,581	\$ 143,237	336.2 %	63.9 %
06/30/15	0.0130	147,710	-	147,710	103,935	142.1	86.6

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of employer's PERA contributions - Public Employees Police and Fire Fund**

Required Supplementary Information						
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)	
12/31/16	\$ 22,212	\$ 22,212	\$ -	\$ 137,114	16.2 %	
12/31/15	21,710	21,710	-	134,012	16.2	

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

CITY OF MADISON LAKE, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
 FOR THE YEAR ENDED DECEMBER 31, 2016

**Schedule of changes in the Fire Relief Association's net pension liability (asset) and related ratios**

	2016 (Fire Relief Report Date 2015)	2015 (Fire Relief Report Date 2014)
Total pension liability		
Service cost	\$ 11,501	\$ 11,221
Interest	15,929	16,146
Changes of benefit terms	45,624	-
Benefit payments, including refunds of employee contributions	(23,000)	(4,990)
Net change in total pension liability	50,054	22,377
Total pension liability - January 1	247,486	225,109
	<u>\$ 297,540</u>	<u>\$ 247,486</u>
Plan fiduciary net position		
Contributions - employer	23,201	23,864
Net investment income	(4,291)	28,912
Benefit payments, including refunds of employee contributions	(23,000)	(4,990)
Administrative expense	-	(161)
Net change in plan fiduciary net position	(4,090)	47,625
Plan fiduciary net position - January 1	427,182	379,557
	<u>\$ 423,092</u>	<u>\$ 427,182</u>
Fire Relief's net pension liability (asset) - December 31 (a-b)	<u>\$ (125,552)</u>	<u>\$ (179,696)</u>
Plan fiduciary net position as a percentage of the total pension liability (b/a)	142.20%	172.61%
Covered-employee payroll	N/A	N/A
Fire Relief's net pension liability (asset) as a percentage of covered-employee payroll	N/A	N/A

**Notes to Schedule:**

*Benefit changes.* A benefit level increase from \$1,200 to \$1,500 was reflected in the activity liability.

*Changes of assumptions.* There were no changes in assumptions in 2016.

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become
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CITY OF MADISON LAKE, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
 FOR THE YEAR ENDED DECEMBER 31, 2016

**Schedule of employer's Fire Relief Association contributions**

Year Ending	Required Supplementary Information		
	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/15	\$ 23,201	\$ 23,201	\$ -
12/31/14	23,864	23,864	-

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

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and temporary investments	\$ 361,679	\$ (175,107)	\$ 186,572
Receivables			
Delinquent taxes	-	779	779
Accounts	-	1,393	1,393
Special assessments			
Delinquent	-	257	257
Noncurrent	-	27,698	27,698
Intergovernmental	-	7	7
Loans	56,576	-	56,576
	<u>418,255</u>	<u>(144,973)</u>	<u>273,282</u>
<b>TOTAL ASSETS</b>	<u>\$ 418,255</u>	<u>\$ (144,973)</u>	<u>\$ 273,282</u>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 72,283	\$ 72,283
Due to other governments	-	3,102	3,102
	<u>-</u>	<u>75,385</u>	<u>75,385</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>75,385</u>	<u>75,385</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - taxes	-	779	779
Unavailable revenue - special assessments	-	27,955	27,955
	<u>-</u>	<u>28,734</u>	<u>28,734</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>28,734</u>	<u>28,734</u>
<b>FUND BALANCES</b>			
Restricted	417,971	2,095	420,066
Assigned	284	518,618	518,902
Unassigned	-	(769,805)	(769,805)
	<u>418,255</u>	<u>(249,092)</u>	<u>169,163</u>
<b>TOTAL FUND BALANCES</b>	<u>418,255</u>	<u>(249,092)</u>	<u>169,163</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 418,255</u>	<u>\$ (144,973)</u>	<u>\$ 273,282</u>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 2,907	\$ 53,671	\$ 56,578
Special assessments	-	7,828	7,828
Charges for services	-	5,470	5,470
Investment earnings	85	326	411
Miscellaneous	1,627	16,355	17,982
<b>TOTAL REVENUES</b>	<b>4,619</b>	<b>83,650</b>	<b>88,269</b>
<b>EXPENDITURES</b>			
Current			
General government	2,023	-	2,023
Housing and economic development	-	39,818	39,818
Miscellaneous	-	14,558	14,558
Capital outlay			
Streets and highways	-	52,889	52,889
<b>TOTAL EXPENDITURES</b>	<b>2,023</b>	<b>107,265</b>	<b>109,288</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,596</b>	<b>(23,615)</b>	<b>(21,019)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>415,659</b>	<b>(225,477)</b>	<b>190,182</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 418,255</b>	<b>\$ (249,092)</b>	<b>\$ 169,163</b>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	<b>225</b>	<b>230</b>	<b>231</b>
	Farmers Market	Economic Development Loan - Federal	Economic Development Loan - State
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 3,351	\$ 333,652	\$ 23,124
Receivables			
Loans	-	56,576	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u>\$ 3,351</u>	<u>\$ 390,228</u>	<u>\$ 23,124</u>
 <b>FUND BALANCES</b>			
Restricted	\$ 3,151	\$ 390,148	\$ 23,120
Assigned	200	80	4
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL FUND BALANCES</b>	<u>\$ 3,351</u>	<u>\$ 390,228</u>	<u>\$ 23,124</u>

800

<u>Gambling</u>	<u>Total Nonmajor</u>
\$ 1,552	\$ 361,679
-	56,576
<u>\$ 1,552</u>	<u>\$ 418,255</u>
\$ 1,552	\$ 417,971
-	284
<u>\$ 1,552</u>	<u>\$ 418,255</u>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>225</b>	<b>230</b>	<b>231</b>
	Farmers Market	Economic Development Loan	Economic Development Loan - State
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Taxes	\$ -	\$ -	\$ -
Investment earnings	-	80	4
Miscellaneous			
Other	200	-	-
Loan payments	<u>-</u>	<u>1,427</u>	<u>-</u>
TOTAL REVENUES	200	1,507	4
EXPENDITURES			
Current			
General government	<u>220</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(20)	1,507	4
FUND BALANCES, JANUARY 1	<u>3,371</u>	<u>388,721</u>	<u>23,120</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 3,351</u></u>	<u><u>\$ 390,228</u></u>	<u><u>\$ 23,124</u></u>

800

<u>Gambling</u>	<u>Total Nonmajor</u>
\$ 2,907	\$ 2,907
1	85
-	200
<u>-</u>	<u>1,427</u>
2,908	4,619
<u>1,803</u>	<u>2,023</u>
1,105	2,596
<u>447</u>	<u>415,659</u>
<u>\$ 1,552</u>	<u>\$ 418,255</u>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	<b>401</b>	<b>413</b>	<b>412</b>
	Public		Tax
	Improvement	CSAH 26	Increment
	Revolving	Reconstruction	District #2-9
<b>ASSETS</b>			
Cash and temporary investments	\$ 517,225	\$ (261,494)	\$ 40,750
Receivables			
Delinquent taxes	-	-	779
Accounts	1,393	-	-
Special assessments			
Delinquent	257	-	-
Noncurrent	27,698	-	-
Due from other funds	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 546,573</u></u>	<u><u>\$ (261,494)</u></u>	<u><u>\$ 41,529</u></u>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ 38,713
Due to other governments	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	<u>          </u>	<u>          </u>	<u>38,713</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - taxes	-	-	779
Unavailable revenue - special assessments	27,955	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>27,955</u>	<u>          </u>	<u>779</u>
<b>FUND BALANCES</b>			
Restricted	-	-	2,037
Assigned	518,618	-	-
Unassigned	-	(261,494)	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL FUND BALANCES</b>	<u>518,618</u>	<u>(261,494)</u>	<u>2,037</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 546,573</u></u>	<u><u>\$ (261,494)</u></u>	<u><u>\$ 41,529</u></u>

<b>414</b> 2014 Construction Fund	<b>416</b> Tax Increment District #2-10	Total Nonmajor
\$ (472,744)	\$ 1,156	\$ (175,107)
-	-	779
-	-	1,393
-	-	257
-	-	27,698
-	7	7
<u>\$ (472,744)</u>	<u>\$ 1,163</u>	<u>\$ (144,973)</u>
\$ 32,465	\$ 1,105	\$ 72,283
3,102	-	3,102
<u>35,567</u>	<u>1,105</u>	<u>75,385</u>
-	-	779
-	-	27,955
-	-	28,734
-	58	2,095
-	-	518,618
<u>(508,311)</u>	<u>-</u>	<u>(769,805)</u>
<u>(508,311)</u>	<u>58</u>	<u>(249,092)</u>
<u>\$ (472,744)</u>	<u>\$ 1,163</u>	<u>\$ (144,973)</u>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>401</b>	<b>413</b>	<b>412</b>
	Public		Tax
	Improvement	CSAH 26	Increment
	Revolving	Reconstruction	District #2-9
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Taxes			
Property taxes	\$ 25,000	\$ -	\$ -
Tax increments	-	-	27,508
Special assessments	7,828	-	-
Charges for services	5,470	-	-
Investment earnings	326	-	-
Miscellaneous			
Other	16,355	-	-
	<u>16,355</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>54,979</u>	<u>-</u>	<u>27,508</u>
EXPENDITURES			
Current			
Economic development		-	38,713
Miscellaneous	14,558	-	-
Capital outlay			
Streets and highways	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>14,558</u>	<u>-</u>	<u>38,713</u>
NET CHANGE IN FUND BALANCES	40,421	-	(11,205)
FUND BALANCES, JANUARY 1	<u>478,197</u>	<u>(261,494)</u>	<u>13,242</u>
FUND BALANCES, DECEMBER 31	<u>\$ 518,618</u>	<u>\$ (261,494)</u>	<u>\$ 2,037</u>

414 2014 Construction Fund	416 Tax Increment District #2-10	Total Nonmajor
\$ -	\$ -	\$ 25,000
-	1,163	28,671
-	-	7,828
-	-	5,470
-	-	326
-	-	16,355
-	1,163	83,650
-	1,105	39,818
-	-	14,558
52,889	-	52,889
52,889	1,105	107,265
(52,889)	58	(23,615)
(455,422)	-	(225,477)
<u>\$ (508,311)</u>	<u>\$ 58</u>	<u>\$ (249,092)</u>

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CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
Cash and temporary investments	\$ 1,096,503	\$ 1,037,551
Receivables		
Delinquent taxes	10,831	5,532
Accounts	3,751	8,767
Intergovernmental	7,071	4,181
<b>TOTAL ASSETS</b>	<b>\$ 1,118,156</b>	<b>\$ 1,056,031</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 12,549	\$ 15,607
Due to other governments	138	2,907
Accrued salaries payable	6,888	7,680
<b>TOTAL LIABILITIES</b>	<b>19,575</b>	<b>26,194</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue - property taxes	10,831	5,532
<b>FUND BALANCES</b>		
Assigned	406,826	398,960
Unassigned	680,924	625,345
<b>TOTAL FUND BALANCES</b>	<b>1,087,750</b>	<b>1,024,305</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,118,156</b>	<b>\$ 1,056,031</b>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		Variance with Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 438,740	\$ 433,449	\$ (5,291)	\$ 420,271
Tax increments	-	12	12	427
Franchise fees	13,500	9,564	(3,936)	11,617
Gambling taxes	1,000	872	(128)	541
Total taxes	<u>453,240</u>	<u>443,897</u>	<u>(9,343)</u>	<u>432,856</u>
Licenses and permits				
Business	5,000	5,389	389	7,170
Nonbusiness	21,150	40,418	19,268	39,161
Total licenses and permits	<u>26,150</u>	<u>45,807</u>	<u>19,657</u>	<u>46,331</u>
Intergovernmental				
Federal				
Other federal aids	-	8,338	8,338	5,568
State				
Local government aid	157,533	157,533	-	157,044
Other state aids	8,395	18,497	10,102	37,838
Total State	<u>165,928</u>	<u>176,030</u>	<u>10,102</u>	<u>194,882</u>
County				
Highway aid	600	600	-	600
Total intergovernmental	<u>166,528</u>	<u>184,968</u>	<u>18,440</u>	<u>201,050</u>
Charges for services				
General government	2,808	3,460	652	3,413
Other	20	16	(4)	31
Total charges for services	<u>2,828</u>	<u>3,476</u>	<u>648</u>	<u>3,444</u>
Fines and forfeits	30,500	40,611	10,111	44,800
Investment earnings	4,500	6,531	2,031	2,590
Miscellaneous				
Other	-	7,149	7,149	7,296
Rent	2,160	1,305	(855)	1,515
Contributions and donations	-	2,114	2,114	55,517
Refunds and reimbursements	3,247	8,393	5,146	5,352
Total miscellaneous	<u>5,407</u>	<u>18,961</u>	<u>13,554</u>	<u>69,680</u>
<b>TOTAL REVENUES</b>	<u>689,153</u>	<u>744,251</u>	<u>55,098</u>	<u>800,751</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016			2015
	Final Budget	Actual Amounts	Variance with Final Budget	Actual Amounts
<b>EXPENDITURES</b>				
<b>Current</b>				
General government				
Mayor and Council				
Personal services	\$ 27,689	\$ 23,528	\$ 4,161	\$ 9,134
Supplies	1,500	4,216	(2,716)	582
Other services and charges	18,487	20,352	(1,865)	22,161
Total Mayor and Council	<u>47,676</u>	<u>48,096</u>	<u>(420)</u>	<u>31,877</u>
City clerk				
Personal services	14,458	21,499	(7,041)	47,951
Supplies	5,500	6,408	(908)	5,275
Other services and charges	9,988	7,042	2,946	7,357
Total city clerk	<u>29,946</u>	<u>34,949</u>	<u>(5,003)</u>	<u>60,583</u>
Election				
Personal services	1,500	447	1,053	-
Supplies	200	330	(130)	-
Other services and charges	250	250	-	250
Total election	<u>1,950</u>	<u>1,027</u>	<u>923</u>	<u>250</u>
Legal and audit				
Other services	25,994	20,533	5,461	28,627
Planning and zoning				
Personal services	16,044	6,848	9,196	1,400
Supplies	500	197	303	239
Other services and charges	700	94	606	162
Total planning and zoning	<u>17,244</u>	<u>7,139</u>	<u>10,105</u>	<u>1,801</u>
Municipal building				
Supplies	8,200	4,220	3,980	7,879
Other services and charges	11,818	12,672	(854)	11,511
Total municipal building	<u>20,018</u>	<u>16,892</u>	<u>3,126</u>	<u>19,390</u>
Total general government	<u>142,828</u>	<u>128,636</u>	<u>14,192</u>	<u>142,528</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		Variance with Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
<b>EXPENDITURES - CONTINUED</b>				
Current - continued				
Public safety				
Police				
Personal services	\$ 161,312	\$ 185,365	\$ (24,053)	\$ 180,975
Supplies	14,828	15,815	(987)	16,923
Other services and charges	19,172	22,759	(3,587)	21,760
Total police	<u>195,312</u>	<u>223,939</u>	<u>(28,627)</u>	<u>219,658</u>
Building/health inspection				
Personal services	-	-	-	1,440
Supplies	150	64	86	139
Other services and charges	11,514	6,878	4,636	21,895
Total building/health inspection	<u>11,664</u>	<u>6,942</u>	<u>4,722</u>	<u>23,474</u>
Civil defense				
Other services and charges	300	289	11	2,188
Animal control				
Other services and charges	400	9	391	337
Rental inspection				
Supplies	3,000	400	2,600	2,160
Total public safety	<u>210,676</u>	<u>231,579</u>	<u>(20,903)</u>	<u>247,817</u>
Streets and highways				
Street maintenance				
Personal services	41,220	39,466	1,754	35,793
Supplies	35,000	31,578	3,422	27,762
Other services and charges	13,542	14,936	(1,394)	11,453
Total street maintenance	<u>89,762</u>	<u>85,980</u>	<u>3,782</u>	<u>75,008</u>
Snow and ice removal				
Supplies	8,000	3,176	4,824	7,259
Street lighting				
Other services and charges	14,974	20,508	(5,534)	18,283
Total streets and highways	<u>112,736</u>	<u>109,664</u>	<u>3,072</u>	<u>100,550</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016			2015
	Final Budget	Actual Amounts	Variance with Final Budget	Actual Amounts
<b>EXPENDITURES - CONTINUED</b>				
Current - continued				
Culture and recreation				
Parks				
Personal services	\$ 19,354	\$ 16,668	\$ 2,686	\$ 11,275
Supplies	6,800	8,748	(1,948)	11,679
Other services and charges	7,362	5,057	2,305	6,425
Total culture and recreation	<u>33,516</u>	<u>30,473</u>	<u>3,043</u>	<u>29,379</u>
Housing and economic development				
Economic development				
Personal services	3,411	4,464	(1,053)	9,101
Supplies	550	6	544	14
Other services and charges	13,770	6,633	7,137	5,696
Total housing and economic development	<u>17,731</u>	<u>11,103</u>	<u>6,628</u>	<u>14,811</u>
Miscellaneous				
Unallocated				
Other services and charges	14,800	16,780	(1,980)	16,554
Total current	<u>532,287</u>	<u>528,235</u>	<u>4,052</u>	<u>551,639</u>
Capital outlay				
General government	15,500	16,611	(1,111)	390
Public safety	8,100	14,101	(6,001)	29,872
Streets and highways	80,000	98,041	(18,041)	97,285
Culture and recreation	35,000	7,551	27,449	56,330
Economic development	500	501	(1)	529
Miscellaneous	2,000	-	2,000	-
Total capital outlay	<u>141,100</u>	<u>136,805</u>	<u>4,295</u>	<u>184,406</u>
<b>TOTAL EXPENDITURES</b>	<u>673,387</u>	<u>665,040</u>	<u>8,347</u>	<u>736,045</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>15,766</u>	<u>79,211</u>	<u>63,445</u>	<u>64,706</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	45,000	45,000	-	50,000
Transfers out	(60,766)	(60,766)	-	(46,996)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(15,766)</u>	<u>(15,766)</u>	<u>-</u>	<u>3,004</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	63,445	63,445	67,710
<b>FUND BALANCES, JANUARY 1</b>	<u>1,024,305</u>	<u>1,024,305</u>	<u>-</u>	<u>956,595</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$ 1,024,305</u>	<u>\$ 1,087,750</u>	<u>\$ 63,445</u>	<u>\$ 1,024,305</u>

CITY OF MADISON LAKE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	<b>340</b>	<b>350</b>	<b>360</b>
	2006 G.O. Improvement Bonds	CSAH 26 Reconstruction	2014A & B G.O. Improvement Bonds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 42,087	\$ -	\$ 2,918,928
Receivables			
Accounts	-	-	-
Special assessments			
Noncurrent	2,261	-	2,753,758
Intergovernmental	<u>-</u>	<u>-</u>	<u>6,118</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 44,348</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,678,804</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - special assessments	\$ 2,261	\$ -	\$ 2,753,758
<b>FUND BALANCES</b>			
Restricted	<u>42,087</u>	<u>-</u>	<u>2,925,046</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 44,348</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,678,804</u></u>

<b>362</b> 2016A G.O. Improvement Bonds	<b>499</b> 2004B G.O. PIR Refunding Bonds	Totals
\$ 122,673	\$ 21,025	\$ 3,104,713
10,000	-	10,000
542,961	59,900	3,358,880
8,170	-	14,288
<u>\$ 683,804</u>	<u>\$ 80,925</u>	<u>\$ 6,487,881</u>
\$ 542,961	\$ 59,900	\$ 3,358,880
<u>140,843</u>	<u>21,025</u>	<u>3,129,001</u>
<u>\$ 683,804</u>	<u>\$ 80,925</u>	<u>\$ 6,487,881</u>

CITY OF MADISON LAKE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>340</b> 2006 G.O. Improvement Bonds	<b>350</b> CSAH 26 Reconstruction	<b>360</b> 2014A & B G.O. Improvement Bonds
<b>REVENUES</b>			
Taxes			
Property taxes	\$ 14,523	\$ -	\$ 36,000
Special assessments	2,510	-	503,942
Investment earnings	1	-	80
	<u>17,034</u>	<u>-</u>	<u>540,022</u>
<b>TOTAL REVENUES</b>			
<b>EXPENDITURES</b>			
Debt service			
Principal	15,000	-	129,192
Interest and fees	1,594	-	153,452
	<u>16,594</u>	<u>-</u>	<u>282,644</u>
<b>TOTAL EXPENDITURES</b>			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>440</u>	<u>-</u>	<u>257,378</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	84,415
Bonds issued	-	-	-
Transfers out	-	(84,415)	-
	<u>-</u>	<u>(84,415)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			
	<u>-</u>	<u>(84,415)</u>	<u>84,415</u>
<b>NET CHANGE IN FUND BALANCES</b>	440	(84,415)	341,793
<b>FUND BALANCES, JANUARY 1</b>	<u>41,647</u>	<u>84,415</u>	<u>2,583,253</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$ 42,087</u>	<u>\$ -</u>	<u>\$ 2,925,046</u>

<b>362</b> 2016A G.O. Improvement Bonds	<b>499</b> 2004B G.O. PIR Refunding Bonds	Totals
\$ 27,500	\$ -	\$ 78,023
77,700	-	584,152
<u>-</u>	<u>1</u>	<u>82</u>
<u>105,200</u>	<u>1</u>	<u>662,257</u>
-	30,000	174,192
<u>-</u>	<u>1,065</u>	<u>156,111</u>
<u>-</u>	<u>31,065</u>	<u>330,303</u>
<u>105,200</u>	<u>(31,064)</u>	<u>331,954</u>
-	-	84,415
35,643	-	35,643
<u>-</u>	<u>-</u>	<u>(84,415)</u>
<u>35,643</u>	<u>-</u>	<u>35,643</u>
140,843	(31,064)	367,597
<u>-</u>	<u>52,089</u>	<u>2,761,404</u>
<u>\$ 140,843</u>	<u>\$ 21,025</u>	<u>\$ 3,129,001</u>

CITY OF MADISON LAKE, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS -  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Total		Percent Increase (Decrease)
	2016	2015	
<b>REVENUES</b>			
Taxes	\$ 578,498	\$ 530,453	9.06 %
Special assessments	591,980	493,602	19.93
Licenses and permits	45,807	46,331	(1.13)
Intergovernmental	207,884	236,522	(12.11)
Charges for services	122,126	142,030	(14.01)
Fines and forfeits	40,611	44,800	(9.35)
Investment earnings	8,643	3,324	160.02
Miscellaneous	42,066	94,820	(55.64)
<b>TOTAL REVENUES</b>	<b>\$ 1,637,615</b>	<b>\$ 1,591,882</b>	2.87 %
Per Capita	\$ 1,400	\$ 1,400	(0.03) %
<b>EXPENDITURES</b>			
Current			
General government	\$ 130,659	\$ 148,281	(11.88) %
Public safety	350,695	370,909	(5.45)
Streets and highways	142,494	100,967	41.13
Culture and recreation	30,473	29,379	3.72
Economic development	50,921	14,811	243.81
Miscellaneous	31,338	16,554	89.31
Capital outlay			
General government	16,611	390	4,159.23
Public safety	29,480	47,644	(38.12)
Streets and highways	912,042	1,860,582	(50.98)
Culture and recreation	7,551	56,330	(86.60)
Economic development	501	529	(5.29)
Debt service			
Principal	174,192	75,000	132.26
Interest and other charges	182,540	160,552	13.70
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,059,497</b>	<b>\$ 2,881,928</b>	(28.54) %
Per Capita	\$ 1,760	\$ 2,535	(30.55) %
Total long-term indebtedness	\$ 6,197,114	\$ 4,906,306	26.31 %
Per Capita	5,297	4,315	22.75
General fund balance - December 31	\$ 1,087,750	\$ 1,024,305	6.19 %
Per Capita	930	901	3.20

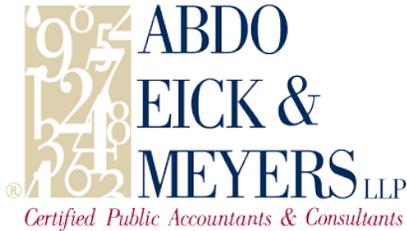
The purpose of this report is to provide a summary of financial information concerning the City of Madison Lake to interested citizens. The complete financial statements may be examined at City Hall, 525 Main Street, PO Box 225, Madison Lake, MN, 56063. Questions about this report should be directed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

**OTHER REQUIRED REPORTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT ON  
MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Madison Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2017.

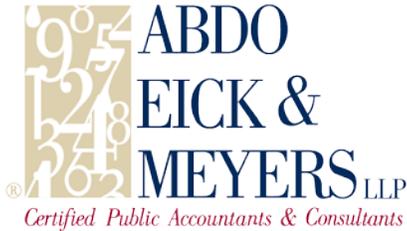
The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements,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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as noted on the Schedule of Findings and Responses as items 2016-004, 2016-005 and 2016-007. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The City's responses to the findings in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
September 26, 2017



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

Honorable Mayor and City Council  
City of Madison Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 26, 2017.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-006 and 2016-007 to be significant deficiencies.

## Compliance and Other Matters

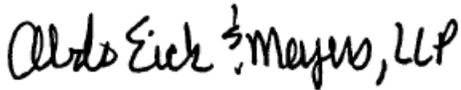
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as items 2016-004, 2016-005 and 2016-007.

## The City's Responses to Findings

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

## Purpose of this Report

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



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
September 26, 2017

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Finding</u>	<u>Description</u>
<b>2016-001</b>	<b>Segregation of duties</b>
<i>Condition:</i>	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.
<i>Criteria:</i>	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.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.
	<b><u>Internal control over payroll</u></b>
<i>Cause:</i>	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.
<i>Recommendation:</i>	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.
<i>Management response:</i>	<p>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.</p>
<i>Updated progress since prior year:</i>	<p>There is no change in this finding.</p>

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding

Description

**2016-001**

**Segregation of duties - Continued**

**Internal control over disbursements**

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

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

*Management response:*

The 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.

**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 - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding

Description

**2016-001**

**Segregation of duties - Continued**

**Internal control over utility billing**

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

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

*Management response:*

The City has 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.

**Internal control over investment transactions**

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

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

*Management response:*

The City has 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.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding

Description

**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 reporting.

*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.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Finding</u>	<u>Description</u>
<b>2016-003</b>	<b>Material accounting/audit adjustments</b>
<i>Condition:</i>	During our audit, adjustments were needed to record numerous accounting and audit adjustments, including some material.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.
<i>Effect:</i>	This indicates that it would be likely that a misstatement may occur and not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.
	<i>Management response:</i>
	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.
<b>2016-004</b>	<b>Collateral coverage</b>
<i>Condition:</i>	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.
<i>Criteria:</i>	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.
<i>Cause:</i>	The City had \$213,712 of deposits uncollateralized on December 31, 2016 due to inadequate monitoring of the collateral requirements.
<i>Effect:</i>	The City is not in compliance with this statute.
<i>Recommendation:</i>	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.
	<i>Management response:</i>
	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.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding

Description

**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.

**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.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding

Description

**2016-007**

**Proper supporting documentation**

*Condition:* During our audit testing, it came to our attention the City did not have original invoices on file to support multiple payments.

*Criteria:* Minnesota statute §15.17 requires that the City keep original invoices for documentation support.

*Cause:* During our audit, we found that multiple payments could not be supported by original invoices.

*Effect:* The City is out of compliance with Minnesota statutes.

*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.