

CITY OF MADISON LAKE, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2018

CITY OF MADISON LAKE, MINNESOTA

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CITY OF MADISON LAKE, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2018

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CITY OF MADISON LAKE, MINNESOTA

CITY OFFICIALS

December 31, 2018

Ken Reichel

Mayor

Laurinda Sohre

Council

Carolyn Hiniker

Council

Kent Hoehn

Council

Pat Burt

Council

Curt Kephart

City Administrator
and Clerk

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CITY OF MADISON LAKE, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Madison Lake, Minnesota as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Madison Lake, Minnesota as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

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

Other Matters

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statement for the year ended December 31, 2017, from which such partial information was derived.

We have previously audited the City's 2017 financial statements and our report dated June 25, 2018, expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2019, on our consideration of the City of Madison Lake, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Madison Lake, Minnesota's internal control over financial reporting and compliance.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
May 13, 2019

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

As management of the City of Madison Lake, Minnesota, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2018.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Madison Lake exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$13,003,714 (net position). Of this amount, \$3,476,154 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens.
- The City's total net position decreased by \$234,150 as compared to a decrease of \$157,084 in the previous year. The governmental activities decreased by \$358,697 and the business type activities increased by \$124,547.
- As of the close of the current fiscal year, the City of Madison Lake's governmental funds reported combined ending fund balances of \$5,134,050, a decrease of \$274,554 in comparison with the prior year. The majority of the governmental funds decrease was due to the transfer of water infrastructure reserves into the water fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The government-wide financial statements can be found starting on page 15 of this report.

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

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

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

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Fire fund, 2014A/B Improvement fund, and 2014 Construction fund all of which are considered to be major funds. Data from the fourteen other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

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

The basic governmental fund financial statements can be found starting on page 18 of this report.

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

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

The basic proprietary fund financial statements can be found starting on page 29 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 33 of this report.

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

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found starting on page 67 of this report.

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

Government-wide Financial Analysis

As noted earlier, net position may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$13,003,714 at the close of the most recent fiscal year.

A significant portion of the City's net position (34 percent) reflects its investment in capital assets (e.g., land, land improvements, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Madison Lake's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 8,219,885	8,678,664	\$ 944,453	\$ 1,075,403	\$ 9,164,338	\$ 9,754,067
Capital assets	8,086,927	8,388,405	6,669,407	6,652,925	14,756,334	15,041,330
Total assets	<u>16,306,812</u>	<u>17,067,069</u>	<u>7,613,860</u>	<u>7,728,328</u>	<u>23,920,672</u>	<u>24,795,397</u>
Deferred outflows of resources	162,661	159,918	21,732	14,993	184,393	174,911
Long-term liabilities outstanding	6,355,689	6,739,210	4,229,598	4,515,777	10,585,287	11,254,987
Other liabilities	121,700	236,492	96,790	80,767	218,490	317,259
Total liabilities	<u>6,477,389</u>	<u>6,975,702</u>	<u>4,326,388</u>	<u>4,596,544</u>	<u>10,803,777</u>	<u>11,572,246</u>
Deferred inflows of resources	249,177	149,681	48,397	10,517	297,574	160,198
Net position:						
Net investment in capital assets	1,933,022	1,929,768	2,507,391	3,081,814	4,440,413	5,011,582
Restricted	5,087,147	6,730,225		58,928	5,087,147	6,789,153
Unrestricted	2,722,738	1,441,611	753,416	(4,482)	3,476,154	1,437,129
Total net position	<u>\$ 9,742,907</u>	<u>\$ 10,101,604</u>	<u>\$ 3,260,807</u>	<u>\$ 3,136,260</u>	<u>\$ 13,003,714</u>	<u>\$ 13,237,864</u>

An additional portion of the City's net position (41 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (25 percent) may be used to meet the City's ongoing obligations to citizens.

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

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

Governmental activities. Governmental activities decreased the City's net position by \$358,697.

Business-type activities. Business-type activities increased the City's net position by \$124,547.

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

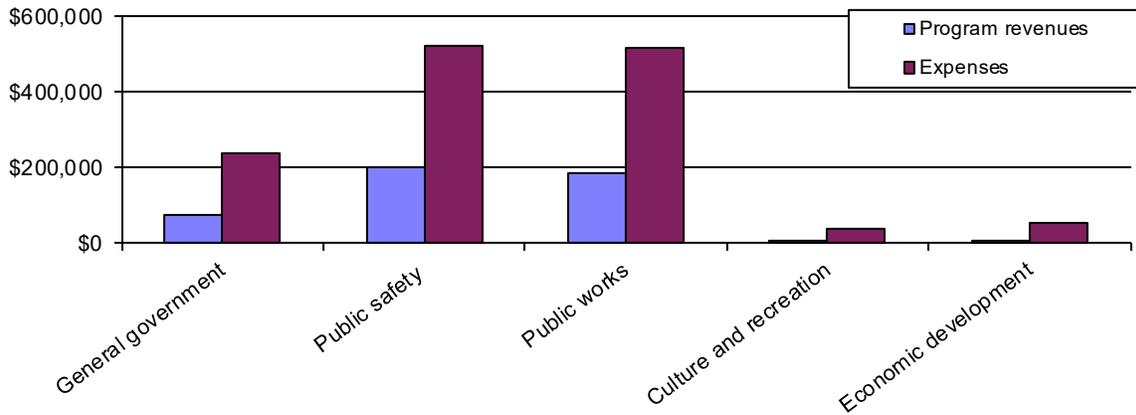
City of Madison Lake's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue:						
Program revenues:						
Charges for services	\$ 244,539	\$ 336,211	\$ 680,622	\$ 654,822	\$ 925,161	\$ 991,033
Operating grants and contributions	64,207	57,154				57,154
Capital grants and contributions	152,897	44,392	59,143	64,267	212,040	108,659
General revenues:						
Property taxes	632,401	611,603			632,401	611,603
Tax increments	55,357	42,075			55,357	42,075
Other taxes	5,593	5,083			5,593	5,083
Grants and contributions not restricted to specific programs					(124,447)	674
Local government aid	164,216	158,031				
Small city assistance	(124,447)	674				
Investment earnings	135,790	10,645	9,720	2,121	145,510	12,766
Other	175,543	60,953			185,263	63,074
Total revenues	<u>1,506,096</u>	<u>1,326,821</u>	<u>749,485</u>	<u>721,210</u>	<u>2,036,878</u>	<u>1,892,121</u>
Expenses:						
General government	241,488	275,855			241,488	275,855
Public safety	521,788	401,647			521,788	401,647
Public works	518,616	429,553			518,616	429,553
Culture and recreation	41,239	65,199			41,239	65,199
Economic development	53,562	17,258			53,562	17,258
Miscellaneous						
Interest on long-term debt	233,332	222,093			233,332	222,093
Water			341,055	268,084	341,055	268,084
Sewer			435,521	436,065	435,521	436,065
Refuse			103,130	89,361	103,130	89,361
Total expenses	<u>1,610,025</u>	<u>1,411,605</u>	<u>879,706</u>	<u>793,510</u>	<u>2,489,731</u>	<u>2,205,115</u>
Increase (decrease) in net position before transfers	(103,929)	(84,784)	(130,221)	(72,300)	(234,150)	(157,084)
Transfers	(254,768)	(165,717)	254,768	165,717		
Increase (Decrease) in net position	<u>(358,697)</u>	<u>(250,501)</u>	<u>124,547</u>	<u>93,417</u>	<u>(234,150)</u>	<u>(157,084)</u>
Net position, beginning of year	10,101,604	10,352,105	3,136,260	3,042,843	13,237,864	13,394,948
Net position, end of year	<u>\$ 9,742,907</u>	<u>\$ 10,101,604</u>	<u>\$ 3,260,807</u>	<u>\$ 3,136,260</u>	<u>\$ 13,003,714</u>	<u>\$ 13,237,864</u>

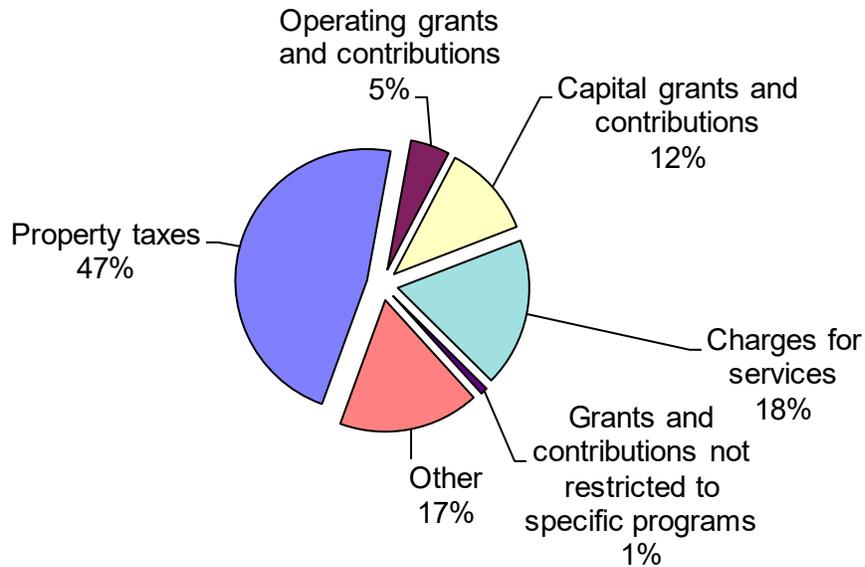
CITY OF MADISON LAKE, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Expenses and Program Revenues - Governmental Activities



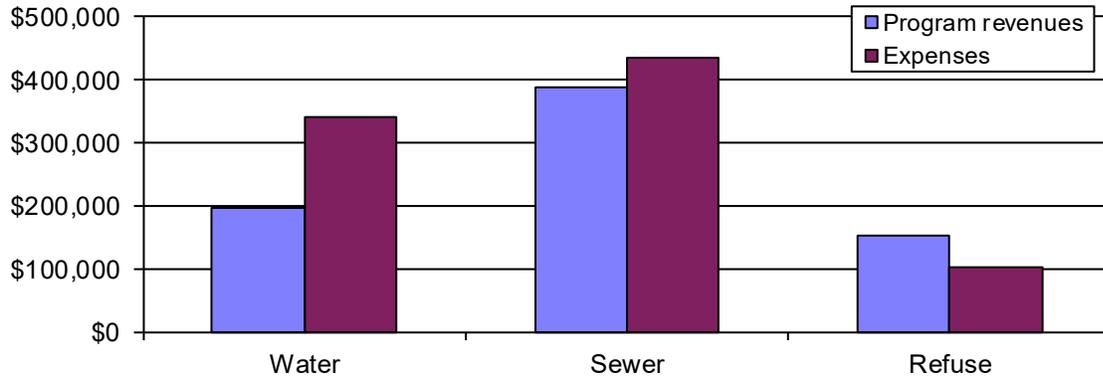
Revenues by Source - Governmental Activities



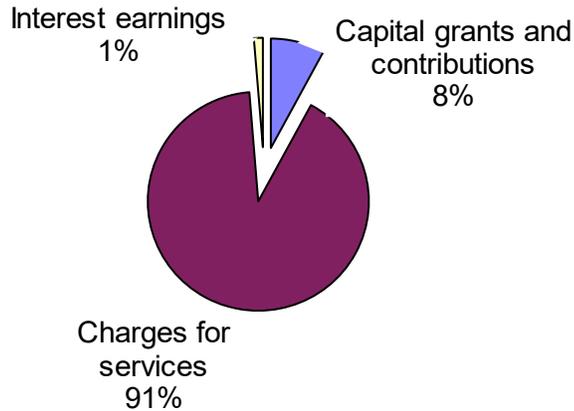
**CITY OF MADISON LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



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

Financial Analysis of the City's Funds

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

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,134,050, a decrease of \$274,554 in comparison with the prior year. The unassigned fund balance at year end totals \$563,773 compared to a deficit (\$201,105) in the prior year. The remainder of fund balance is not available for new spending because it is either 1) restricted \$3,059,182, or 2) assigned \$1,511,095 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 \$1,026,317. 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 131 percent of fund expenditures, while unassigned fund balance represents 72 percent of fund expenditures.

The fund balance of the City's *General fund* increased by \$16,465 during the current fiscal year. The key factor in this increase was due to less capital outlay expenditures in the current year.

The *Fire fund* has a total fund balance of \$756,402. The net increase in fund balance during the current year in the Fire fund was \$20,481. The *Fire fund* continues to grow the reserves for future equipment purchases.

The *Debt Service fund* has a total fund balance of \$2,559,805, all of which is restricted for the payment of debt service.

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

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

The Enterprise funds reported a net surplus in unrestricted net position of \$753,416. The total increase in net position for the funds was \$124,547. 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 \$66,927, and expenditures were over budget by \$204,479.

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, 2018, amounts to \$14,756,334 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total change in the City's investment in capital assets for the current fiscal year was a 2 percent decrease (a 4 percent decrease for governmental activities and flat for business-type activities).

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 405,357	\$ 405,357	\$ 47,313	\$ 47,313	\$ 452,670	\$ 452,670
Construction in process		708,859				708,859
Improvements other than buildings	13,516	16,017			13,516	16,017
Buildings	835,854	123,749			835,854	123,749
Infrastructure	6,501,098	6,879,621	6,596,943	6,587,386	13,098,041	13,467,007
Machinery and equipment	266,107	158,702	25,151	18,226	291,258	176,928
Vehicles	64,995	96,100			64,995	96,100
Total	\$ 8,086,927	\$ 8,388,405	\$ 6,669,407	\$ 6,652,925	\$ 14,756,334	\$ 15,041,330

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

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$10,216,717. Of this amount, \$6,075,971 is special assessment debt and \$3,370,059 is revenue debt. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Madison Lake's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 6,075,971	\$ 6,376,071	\$	\$	\$ 6,075,971	\$ 6,376,071
G.O. revenue bonds			1,500,029	1,568,929	1,500,029	1,568,929
Revenue notes			1,870,030	1,979,659	1,870,030	1,979,659
Loans payable			770,687	840,111	770,687	840,111
Total	\$ 6,075,971	\$ 6,376,071	\$ 4,140,746	\$ 4,388,699	\$ 10,216,717	\$ 10,764,770

The City's total debt decreased by \$548,053, or 5 percent during the current fiscal year.

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

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

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Blue Earth County is currently 2.7 percent, which is a decrease from a rate of 3.2 percent a year ago. This compares favorably to the State's average unemployment rate of 3.3 percent and the national average rate of 4.1 percent.

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

All of these factors were considered in preparing the City's budget for the 2019 fiscal year.

Requests for Information

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

CITY OF MADISON LAKE, MINNESOTA

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2018

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CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2018

With Comparative Totals for December 31, 2017

	Governmental Activities	Business-Type Activities	Totals	
			2018	2017
ASSETS				
Cash and investments	\$ 5,050,558	\$ 843,961	\$ 5,894,519	\$ 6,381,459
Receivables	2,851,721	100,492	2,952,213	3,171,044
Due from other governmental units	42,511		42,511	26,827
Pension asset	275,095		275,095	174,737
Capital assets:				
Nondepreciable	405,357	47,313	452,670	1,161,529
Depreciable, net	7,681,570	6,622,094	14,303,664	13,879,801
Total Assets	16,306,812	7,613,860	23,920,672	24,795,397
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from pension activity	162,661	21,732	184,393	174,911
LIABILITIES				
Accounts payable	23,107	24,677	47,784	142,183
Accrued liabilities	9,955	3,839	13,794	9,594
Accrued interest payable	78,906	58,500	137,406	148,568
Customer deposits payable		9,774	9,774	8,436
Compensated absences	9,732	4,925	14,657	12,340
Noncurrent liabilities				
Due within one year	288,743	265,992	554,735	561,423
Due in more than one year	5,865,162	3,896,024	9,761,186	10,308,435
Net pension liability	201,784	62,657	264,441	381,267
Total Liabilities	6,477,389	4,326,388	10,803,777	11,572,246
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pension activity	249,177	48,397	297,574	160,198
NET POSITION				
Net investment in capital assets	1,933,022	2,507,391	4,440,413	5,011,582
Restricted for:				
Debt service	4,587,770		4,587,770	6,267,736
Infrastructure				58,928
Farmers market	3,320		3,320	3,251
Economic development	476,136		476,136	456,573
Community service	19,921		19,921	2,665
Unrestricted	2,722,738	753,416	3,476,154	1,437,129
Total Net Position	\$ 9,742,907	\$ 3,260,807	\$ 13,003,714	\$ 13,237,864

See Notes to Financial Statements

**CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 241,488	\$ 15,227	\$ 58,296	\$
Public safety	521,788	199,170	3,499	
Public works	518,616	29,325	2,312	152,897
Culture and recreation	41,239		100	
Economic development	53,562	817		
Interest on long-term debt	233,332			
Total governmental activities	1,610,025	244,539	64,207	152,897
Business-Type activities:				
Water	341,055	192,210		5,741
Sewer	435,521	335,139		53,402
Refuse	103,130	153,273		
Total business-type activities	879,706	680,622		59,143
Total	\$ 2,489,731	\$ 925,161	\$ 64,207	\$ 212,040

General revenues:

General property taxes

Tax increments

Other taxes

Grants and contributions not restricted to specific programs:

Local government aid

Small city assistance

Interest earnings

Miscellaneous

Transfers

Total general revenues

Change in net position

Net position - beginning

Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals 2018	2017
\$ (167,965)	\$	\$ (167,965)	\$ (205,431)
(319,119)		(319,119)	(112,614)
(334,082)		(334,082)	(351,653)
(41,139)		(41,139)	(64,799)
(52,745)		(52,745)	(17,258)
(233,332)		(233,332)	(222,093)
<u>(1,148,382)</u>		<u>(1,148,382)</u>	<u>(973,848)</u>
	(143,104)	(143,104)	(64,817)
	(46,980)	(46,980)	(52,584)
	50,143	50,143	42,980
	<u>(139,941)</u>	<u>(139,941)</u>	<u>(74,421)</u>
<u>(1,148,382)</u>	<u>(139,941)</u>	<u>(1,288,323)</u>	<u>(1,048,269)</u>
632,401		632,401	611,603
55,357		55,357	42,075
5,593		5,593	5,083
164,216		164,216	158,031
11,343		11,343	11,319
135,790	9,720	145,510	12,766
39,753		39,753	50,308
(254,768)	254,768		
<u>789,685</u>	<u>264,488</u>	<u>1,054,173</u>	<u>891,185</u>
(358,697)	124,547	(234,150)	(157,084)
<u>10,101,604</u>	<u>3,136,260</u>	<u>13,237,864</u>	<u>13,394,948</u>
<u>\$ 9,742,907</u>	<u>\$ 3,260,807</u>	<u>\$ 13,003,714</u>	<u>\$ 13,237,864</u>

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CITY OF MADISON LAKE, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2018

CITY OF MADISON LAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2018

With Comparative Totals for December 31, 2017

	<u>100</u>	<u>Special Revenue</u> <u>120</u>	<u>Debt Service</u> <u>360/361</u> <u>2014A/B</u>
	General	Fire	Improvement
ASSETS			
Cash and investments	\$ 1,047,992	\$ 708,674	\$ 2,221,580
Accounts receivable	3,837	15,185	
Taxes receivable delinquent	15,350		
Special assessments receivable:			
Deferred			2,280,322
Delinquent			6,767
Loan receivable			
Due from other funds			
Due from other governmental units	4,342	34,948	
TOTAL ASSETS	\$ 1,071,521	\$ 758,807	\$ 4,508,669
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 20,102	\$ 2,202	\$
Accrued expenses	9,752	203	
Due to other funds			
Total Liabilities	<u>29,854</u>	<u>2,405</u>	
Deferred Inflows of Resources			
Unavailable:			
Delinquent property taxes	15,350		
Special assessments			2,287,089
Total Deferred Inflows of Resources	<u>15,350</u>		<u>2,287,089</u>
Fund Balance			
Restricted:			
Creditors			2,221,580
Community service			
Farmer's market			
Economic development			
Capital outlay			
Assigned	462,544	756,402	
Unassigned	563,773		
Total Fund Balance	<u>1,026,317</u>	<u>756,402</u>	<u>2,221,580</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 1,071,521	\$ 758,807	\$ 4,508,669

See Notes to Financial Statements

Capital Project		Other Governmental Funds	Total Governmental Funds	
414 2014 Construction			2018	2017
\$ 203	\$ 1,072,109	\$ 5,050,558	\$ 5,445,422	
	1,478	20,500	22,038	
	4,143	19,493	10,613	
	470,224	2,750,546	2,939,399	
	872	7,639	4,142	
	53,543	53,543	55,486	
			799,168	
	3,221	42,511	26,827	
<u>\$ 203</u>	<u>\$ 1,605,590</u>	<u>\$ 7,944,790</u>	<u>\$ 9,303,095</u>	
\$ 203	\$ 600	\$ 23,107	\$ 134,851	
		9,955	6,318	
			799,168	
<u>203</u>	<u>600</u>	<u>33,062</u>	<u>940,337</u>	
	4,143	19,493	10,613	
	471,096	2,758,185	2,943,541	
	475,239	2,777,678	2,954,154	
	338,225	2,559,805	3,340,339	
	19,921	19,921	2,665	
	3,320	3,320	3,251	
	476,136	476,136	456,573	
			47,219	
	292,149	1,511,095	1,759,662	
		563,773	(201,105)	
	1,129,751	5,134,050	5,408,604	
<u>\$ 203</u>	<u>\$ 1,605,590</u>	<u>\$ 7,944,790</u>	<u>\$ 9,303,095</u>	

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

For the Year Ended December 31, 2018

With Comparative Totals for the Year Ended December 31, 2017

	<u>100</u>	<u>Special Revenue</u> <u>120</u>	<u>Debt Service</u> <u>360/361</u> <u>2014A/B</u> <u>Improvement</u>
	General	Fire	Improvement
REVENUES			
General property taxes	\$ 486,053	\$	\$ 34,029
Tax increment			
Franchise fees	27,018		
Special assessments			275,251
Licenses and permits	31,405		
Intergovernmental revenues	209,365	21,841	
Charges for services	2,417	132,426	
Fines and forfeits	48,743		
Investment income	7,177	13,270	70,732
Miscellaneous revenues	7,820	75	
	<u>819,998</u>	<u>167,612</u>	<u>380,012</u>
EXPENDITURES			
General government	216,697		2,173
Public safety	270,083	124,685	
Public works	153,595		
Culture and recreation	36,681		
Economic development	11,505		
Unallocated	37,690		
Debt service:			
Principal			206,100
Interest and fiscal charges			144,591
Capital outlay	55,392	79,198	
	<u>781,643</u>	<u>203,883</u>	<u>352,864</u>
Excess (deficiency) of revenues over (under) expenditures	<u>38,355</u>	<u>(36,271)</u>	<u>27,148</u>
OTHER FINANCING SOURCES (USES)			
Bond proceeds			
Transfers in	45,000	56,752	
Transfers out	(66,890)		(811,714)
	<u>(21,890)</u>	<u>56,752</u>	<u>(811,714)</u>
Net change in fund balances	16,465	20,481	(784,566)
Fund Balance - beginning	1,009,852	735,921	3,006,146
Fund Balance - ending	<u>\$ 1,026,317</u>	<u>\$ 756,402</u>	<u>\$ 2,221,580</u>

See Notes to Financial Statements

Capital Project 414 2014 Construction	Other Governmental Funds	Total Governmental Funds	
		2018	2017
\$	\$ 112,319	\$ 632,401	\$ 611,603
	55,357	55,357	42,075
	63,002	27,018	15,658
		338,253	491,828
		31,405	98,628
		231,206	195,462
	43	134,886	141,324
		48,743	50,906
	44,611	135,790	26,648
	5,316	13,211	77,277
	<u>280,648</u>	<u>1,648,270</u>	<u>1,751,409</u>
	750	219,620	205,153
		394,768	405,202
		153,595	105,560
		36,681	43,564
	42,075	53,580	15,198
		37,690	8,952
	94,000	300,100	171,043
	53,736	198,327	212,749
202	<u>138,903</u>	<u>273,695</u>	<u>841,663</u>
202	<u>329,464</u>	<u>1,668,056</u>	<u>2,009,084</u>
(202)	<u>(48,816)</u>	<u>(19,786)</u>	<u>(257,675)</u>
538,710	299,435	939,897	338,060
	(316,061)	(1,194,665)	234,920
			(400,637)
<u>538,710</u>	<u>(16,626)</u>	<u>(254,768)</u>	<u>172,343</u>
538,508	(65,442)	(274,554)	(85,332)
<u>(538,508)</u>	<u>1,195,193</u>	<u>5,408,604</u>	<u>5,493,936</u>
<u>\$</u>	<u>\$ 1,129,751</u>	<u>\$ 5,134,050</u>	<u>\$ 5,408,604</u>

CITY OF MADISON LAKE, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2018

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

Total governmental fund balances (page 18 and 19)		\$ 5,134,050
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 12,375,982	
Less: Accumulated depreciation	<u>(4,289,055)</u>	8,086,927
Some receivables are not available soon enough to pay for current period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes	\$ 19,493	
Deferred and delinquent special assessments	<u>2,758,185</u>	2,777,678
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (6,075,971)	
Unamortized bond premium, net	(77,934)	
Net pension liability	(13,205)	
Compensated absences	(9,732)	
Accrued interest	<u>(78,906)</u>	<u>(6,255,748)</u>
Net position of governmental activities (page 14)		<u>\$ 9,742,907</u>

CITY OF MADISON LAKE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

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

Net change in fund balances - total governmental funds (page 20 and 21)	\$ (274,554)
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Governmental funds reported capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 202,017	
Loss on disposal of capital assets	(16,042)	
Depreciation expense	<u>(487,453)</u>	(301,478)

Certain revenues in the statement of activities do not provide current financial resources are not reported as revenues in the funds.

Property taxes	\$ 8,880	
Special assessments	<u>(185,356)</u>	(176,476)

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.

Compensated absences, December 31, 2018	\$ (9,732)	
Compensated absences, December 31, 2017	<u>8,478</u>	(1,254)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Change in accrued interest	\$ 7,939	
Amortization of bond premium	4,632	
Change in net pension liability	82,394	
Principal retirement on long-term debt	<u>300,100</u>	<u>395,065</u>

Change in net position of governmental activities (pages 15 and 16)	<u>\$ (358,697)</u>
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CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property	\$ 486,387	\$ 486,387	\$ 486,053	\$ (334)	\$ 479,918
Franchise	9,500	9,500	27,018	17,518	15,658
Total Taxes	495,887	495,887	513,071	17,184	495,576
Licenses and Permits					
Business	21,000	21,000	26,386	5,386	93,024
Nonbusiness	5,000	5,000	5,019	19	5,604
Total Licenses and Permits	26,000	26,000	31,405	5,405	98,628
Intergovernmental Revenues					
Local government aid	164,216	164,216	164,216		158,031
Small city assistance			11,343	11,343	11,319
Other state aid	26,000	26,000	31,494	5,494	25,512
Other State/Federal grant	600	600	2,312	1,712	600
Total Intergovernmental Revenues	190,816	190,816	209,365	18,549	195,462
Charges For Services					
Township fire contributions	2,808	2,808	2,417	(391)	1,340
Other					6
Total Charges For Services	2,808	2,808	2,417	(391)	1,346
Fines and Forfeits					
Court fines	30,500	30,500	48,743	18,243	49,885
Investment Income					
	4,000	4,000	7,177	3,177	2,557
Miscellaneous Revenues					
Fire department contribution	1,660	1,660	1,175	(485)	1,335
Other contributions			100	100	600
Other refunds and reimbursements					1,741
Other	1,400	1,400	6,545	5,145	36,928
Total Miscellaneous Revenues	3,060	3,060	7,820	4,760	40,604
TOTAL REVENUES	\$ 753,071	\$ 753,071	\$ 819,998	\$ 66,927	\$ 884,058

See Notes to Financial Statements

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 27,033	\$ 27,033	\$ 24,049	\$ 2,984	\$ 21,889
Supplies	1,000	1,000	2,178	(1,178)	695
Other services and charges	7,800	7,800	10,639	(2,839)	10,833
Total Mayor and Council	35,833	35,833	36,866	(1,033)	33,417
Election					
Employee services	1,500	1,500	2,055	(555)	418
Supplies	200	200	64	136	
Other services and charges	250	250	693	(443)	250
Total Election	1,950	1,950	2,812	(862)	668
City Administration					
Employee services	12,149	12,149	6,551	5,598	19,440
Materials and supplies	5,000	5,000	6,971	(1,971)	5,110
Other charges	6,250	6,250	46,199	(39,949)	31,674
Capital outlay	12,000	12,000	2,656	9,344	7,901
Total City Administration	35,399	35,399	62,377	(26,978)	64,125
Professional Services					
Legal	8,000	8,000	2,015	5,985	3,259
Accounting and audit	18,000	18,000	23,832	(5,832)	23,630
Other	13,500	13,500	59,357	(45,857)	54,091
Total Professional Services	39,500	39,500	85,204	(45,704)	80,980
Planning and Zoning					
Employee services	17,681	17,681	9,035	8,646	10,071
Supplies	500	500	112	388	
Other services and charges					20
Total Planning and Zoning	18,181	18,181	9,147	9,034	10,091
Municipal Building					
Supplies	7,000	7,000	5,076	1,924	4,532
Other services and charges	15,700	15,700	17,871	(2,171)	15,429
Total Municipal Building	22,700	22,700	22,947	(247)	19,961
Total General Government	\$ 153,563	\$ 153,563	\$ 219,353	\$ (65,790)	\$ 209,242

See Notes to Financial Statements

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
EXPENDITURES					
Public Safety					
Police Protection					
Employee services	\$ 181,419	\$ 181,419	\$ 205,840	\$ (24,421)	\$ 221,667
Supplies	15,500	15,500	27,309	(11,809)	17,734
Other	22,100	22,100	16,054	6,046	20,756
Capital outlay					60,446
Total Police Protection	219,019	219,019	249,203	(30,184)	320,603
Building Inspection					
Other charges			20,609	(20,609)	23,300
Civil Defense					
Other charges	300	300	271	29	308
Rental Inspection					
Other charges					130
Total Public Safety	219,319	219,319	270,083	(50,764)	344,341
Public Works					
Highways, Streets and Alleys					
Employee services	43,394	43,394	40,999	2,395	47,527
Materials and supplies	36,500	36,500	30,632	5,868	33,913
Other charges	13,700	13,700	53,380	(39,680)	3,060
Capital outlay	30,000	30,000	29,850	150	102,864
Total Highways Streets and Alleys	123,594	123,594	154,861	(31,267)	187,364
Snow Removal	8,000	8,000	5,518	2,482	2,684
Street Lights	15,000	15,000	23,066	(8,066)	18,376
Total Public Works	\$ 146,594	\$ 146,594	\$ 183,445	\$ (36,851)	\$ 208,424

See Notes to Financial Statements

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
EXPENDITURES					
Culture and Recreation					
Parks					
Employee services	\$ 21,661	\$ 21,661	\$ 18,730	\$ 2,931	\$ 27,403
Materials and supplies	6,800	6,800	7,881	(1,081)	7,349
Contracted services	8,800	8,800	10,070	(1,270)	8,812
Capital outlay	10,000	10,000	22,700	(12,700)	8,380
Total Culture and Recreation	47,261	47,261	59,381	(12,120)	51,944
Housing and Economic Development					
Employee services	477	477	1,073	(596)	1,428
Materials and supplies	500	500		500	5,000
Other charges	9,200	9,200	10,432	(1,232)	7,049
Capital outlay	250	250	186	64	656
Total Housing and Economic Development	10,427	10,427	11,691	(1,264)	14,133
Unallocated Expense					
Miscellaneous			37,690	(37,690)	8,952
TOTAL EXPENDITURES	577,164	577,164	781,643	(204,479)	837,036
Excess (deficiency) of revenues over (under) expenditures	175,907	175,907	38,355	(137,552)	47,022
Other Financing Sources (Uses)					
Transfers in			45,000	45,000	45,000
Transfers out			(66,890)	(66,890)	(169,920)
Total other financing sources (uses)			(21,890)	(21,890)	(124,920)
Net change in fund balances	175,907	175,907	16,465	(159,442)	(77,898)
FUND BALANCE - beginning	1,009,852	1,009,852	1,009,852		1,087,750
FUND BALANCE - ending	\$ 1,185,759	\$ 1,185,759	\$ 1,026,317	\$ (159,442)	\$ 1,009,852

See Notes to Financial Statements

CITY OF MADISON LAKE, MINNESOTA
FIRE FUND
STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
REVENUES					
Charges for services	\$ 135,340	\$ 135,340	\$ 132,426	\$ (2,914)	\$ 138,543
Investment Income			13,270	13,270	602
Intergovernmental					
State aid	16,000	16,000	18,342	2,342	22,340
Other state aid			3,499	3,499	
Total Intergovernmental Revenues	16,000	16,000	21,841	5,841	22,340
Miscellaneous Revenues					
Other	100	100	75	(25)	14,333
Total Miscellaneous Revenues	100	100	75	(25)	14,333
TOTAL REVENUES	151,440	151,440	167,612	16,172	175,818
EXPENDITURES					
Employee services	27,821	27,821	24,484	3,337	22,205
Materials and supplies	49,350	49,350	39,390	9,960	47,931
Repairs and maintenance	17,000	17,000	22,406	(5,406)	17,068
Utilities	5,421	5,421	5,102	319	5,085
Insurance	5,900	5,900	5,900		2,478
Other charges	25,200	25,200	27,403	(2,203)	26,540
Capital outlay	40,000	40,000	79,198	(39,198)	27,942
Total Expenditures	170,692	170,692	203,883	(33,191)	149,249
Excess (deficiency) of revenues over (under) expenditures	(19,252)	(19,252)	(36,271)	(17,019)	26,569
Other Financing Sources (Uses)					
Transfers in	56,752	56,752	56,752		47,403
Transfers out					(20,000)
Total other financing sources (uses)	56,752	56,752	56,752		27,403
Net change in fund balances	37,500	37,500	20,481	(17,019)	53,972
Fund Balance - beginning			735,921	735,921	681,949
Fund Balance - ending	\$ 37,500	\$ 37,500	\$ 756,402	\$ 718,902	\$ 735,921

See Notes to Financial Statements

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CITY OF MADISON LAKE, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Business - Type Activities - Enterprise Funds					
	Water	Sewer	Refuse	Totals		
				2018	2017	
ASSETS						
Current Assets						
Cash and investments	\$		\$ 775,629	\$ 68,332	\$ 843,961	\$ 936,037
Accounts receivable		14,995	31,530	11,898	58,423	59,107
Special assessments receivable		2,098	38,618	1,353	42,069	38,771
Due from other governments						41,488
Total Current Assets		17,093	845,777	81,583	944,453	1,075,403
Noncurrent Assets						
Capital assets:						
Nondepreciable		35,471	11,842		47,313	47,313
Depreciable		5,062,035	6,462,728		11,524,763	11,182,789
Less: Accumulated depreciation		1,303,186	3,599,483		4,902,669	4,577,177
Total Capital Assets		3,794,320	2,875,087		6,669,407	6,652,925
Total Noncurrent Assets		3,794,320	2,875,087		6,669,407	6,652,925
TOTAL ASSETS		3,811,413	3,720,864	81,583	7,613,860	7,728,328
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows from pension activity		10,094	9,564	2,074	21,732	14,993
LIABILITIES						
Current Liabilities						
Accounts payable		1,318	19,540	3,819	24,677	7,332
Accrued expenses		1,693	1,693	453	3,839	3,276
Accrued interest		15,997	42,503		58,500	61,723
Customer deposits		9,774			9,774	8,436
Current maturities of bonds payable		133,170	62,086		195,256	191,899
Current maturities of note payable			70,736		70,736	69,423
Total Current Liabilities		161,952	196,558	4,272	362,782	342,089
Noncurrent Liabilities						
Bonds payable, net of current maturities and (premium)		2,068,280	1,127,793		3,196,073	3,379,212
Note payable, net of current maturities			699,951		699,951	770,687
Compensated absences payable		2,323	2,323	279	4,925	3,862
Net pension liability		29,081	27,631	5,945	62,657	100,694
Total Noncurrent Liabilities		2,099,684	1,857,698	6,224	3,963,606	4,254,455
TOTAL LIABILITIES		2,261,636	2,054,256	10,496	4,326,388	4,596,544
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows from pension activity		22,464	21,340	4,593	48,397	10,517
NET POSITION						
Net investment in capital assets		1,592,870	914,521		2,507,391	3,081,814
Restricted for						
Infrastructure						58,928
Unrestricted		(55,463)	740,311	68,568	753,416	(4,482)
TOTAL NET POSITION	\$	1,537,407	\$ 1,654,832	\$ 68,568	\$ 3,260,807	\$ 3,136,260

See Notes to Financial Statements

CITY OF MADISON LAKE, MINNESOTA
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Business - Type Activities - Enterprise Funds			Total	
	Water	Sewer	Refuse	2018	2017
Operating Revenues					
Sales	\$ 192,210	\$ 335,139	\$ 153,273	\$ 680,622	\$ 654,822
Operating Expenses					
Employee services	42,341	39,970	8,772	91,083	83,735
Employee benefits and retirements	16,112	12,535	848	29,495	45,510
Materials and supplies	13,145	4,334	1,489	18,968	19,756
Repairs and maintenance	8,023	5,285		13,308	5,413
Utilities	19,257	24,583		43,840	34,151
Depreciation	159,837	165,655		325,492	246,774
Contracted services	3,988	8,137		12,125	7,900
Professional services	13,218			13,218	15,278
Other charges	23,839	129,146	92,021	245,006	213,201
Total Operating Expenses	299,760	389,645	103,130	792,535	671,718
Operating Income (Loss)	(107,550)	(54,506)	50,143	(111,913)	(16,896)
Nonoperating Revenues (Expenses)					
Interest income	1,410	6,881	1,429	9,720	2,121
Miscellaneous income	5,741	53,402		59,143	64,267
Interest expense	(41,295)	(45,876)		(87,171)	(121,792)
Total Nonoperating Revenues (Expenses)	(34,144)	14,407	1,429	(18,308)	(55,404)
Net Income (Loss) Before Transfers	(141,694)	(40,099)	51,572	(130,221)	(72,300)
Transfers in	299,768			299,768	210,717
Transfers out			(45,000)	(45,000)	(45,000)
Net Increase (Decrease) in Net Position	158,074	(40,099)	6,572	124,547	93,417
NET POSITION - Beginning of Year	1,379,333	1,694,931	61,996	3,136,260	3,042,843
NET POSITION - End of Year	\$ 1,537,407	\$ 1,654,832	\$ 68,568	\$ 3,260,807	\$ 3,136,260

See Notes to the Financial Statements

CITY OF MADISON LAKE, MINNESOTA
PROPRIETARY FUND
STATEMENT OF CASH FLOW
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Business - Type Activities - Enterprise Funds				
	Water	Sewer	Refuse	Total	
				2018	2017
Cash Flows From Operating Activities					
Cash received from customers	\$ 233,846	\$ 335,685	\$ 153,263	\$ 722,794	\$ 677,226
Cash paid to suppliers	(80,906)	(156,789)	(89,799)	(327,494)	(322,643)
Cash paid to employees	(59,743)	(55,903)	(11,828)	(127,474)	(121,847)
Net Cash Provided By Operating Activities	93,197	122,993	51,636	267,826	232,736
Cash Flows From Noncapital Financing Activities					
Other income (expense)	5,741	53,402		59,143	64,267
Increase (decrease) in customer deposits	1,338			1,338	1,570
Net Cash Provided By Noncapital Financing Activities	7,079	53,402		60,481	65,837
Cash Flows From Capital and Related Financing Activities					
Acquisition of capital assets	(340,411)	(1,562)		(341,973)	(210,717)
Principal paid on special assessments	(1,023)	(1,616)	(659)	(3,298)	893
Proceeds from issuance of long-term debt	13,371			13,371	
Principal paid on long-term debt	(131,695)	(129,629)		(261,324)	(273,639)
Interest and fiscal agent fees	(42,617)	(49,030)		(91,647)	(104,576)
Transfer in from (out to) other funds	299,768		(45,000)	254,768	165,717
Net Cash Provided By (Used In) Capital and Related Financing Activities	(202,607)	(181,837)	(45,659)	(430,103)	(422,322)
Cash Flows From Investing Activities					
Investment income	1,410	6,881	1,429	9,720	2,121
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(100,921)	1,439	7,406	(92,076)	(121,628)
CASH AND CASH EQUIVALENTS - Beginning of Year	100,921	774,190	60,926	936,037	1,057,665
CASH AND CASH EQUIVALENTS - End of Year	\$	\$ 775,629	\$ 68,332	\$ 843,961	\$ 936,037

See Notes to the Financial Statements

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

	Business - Type Activities - Enterprise Funds				
	Water	Sewer	Refuse	Total	
				2018	2017
Operating Income	\$ (107,550)	\$ (54,506)	\$ 50,143	\$ (111,913)	\$ (16,896)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	159,837	165,655		325,492	246,774
Change in net pension liability	(1,290)	(3,398)	(2,208)	(6,896)	7,398
(Increase) Decrease In:					
Accounts receivable	41,636	546	(10)	42,172	22,404
Increase (Decrease) In:					
Accounts payable	(303)	13,829	3,819	17,345	(25,832)
Accrued expenses	867	867	(108)	1,626	(1,112)
 Net Cash Provided By Operating Activities	 \$ 93,197	 \$ 122,993	 \$ 51,636	 \$ 267,826	 \$ 232,736
 Noncash Investing, Capital, and Financing Activities					
Amortization of bond premium	\$ (425)	\$ (828)		\$ (1,253)	\$ (1,253)

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CITY OF MADISON LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The City of Madison Lake, (the City) operates under “Optional Plan A” as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City.

A. Reporting Entity

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

B. Government-wide and Fund Financial Statements

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

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

D. Description of Funds

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

The City reports the following major governmental funds:

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

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

D. *Description of Funds (Continued)*

The *Debt Service fund 2014A/B Bond* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *2014 Construction fund* accounts for costs associated with 2014 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.

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

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

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

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

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

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

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

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

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Deposits and Investments (Continued)

The Minnesota Municipal Money Market is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. The City's investment in this trust is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

Investment Policy

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

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

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

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

Property Taxes

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

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2018. All enterprise fund trade receivables are considered collectible because the City annually certifies delinquent accounts to the County for collection.

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Special Assessments

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

Capital Assets

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

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

For the financial statements purposes only, a capitalization threshold is established for each capital asset category as follows:

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

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

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

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.

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Pensions

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

Fund Balance

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

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

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

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

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

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

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

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net positions are displayed in three components:

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

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

Reclassification

Certain amounts in the 2017 financial statement have been reclassified to conform with the 2018 presentation.

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 2018.

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Cash and Investments

A. Deposits and Investments

Deposits

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Cash and Investments (Continued)

Fair Value Investments

As of December 31, 2018, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

<u>Cash and Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Amount</u>	<u>Fair Value Measurement Level 1</u>
Cash on hand			\$ 224	\$
Deposits			2,038,903	
Pooled investments at amortized cost				
4M Fund	None	Unrated	3,684,549	
Broker Money Market Funds	None	Unrated	22,784	
Non-pooled investments at fair value				
Government Agency Securities	None	Unrated	148,059	148,059
			<u>\$ 5,894,519</u>	<u>\$ 148,059</u>

- 1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.
 - 2) Interest rate risk is disclosed using the segmented time distribution method.
- N/A Indicates not applicable or available.

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

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

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

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Cash and Investments (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	2,038,903
Investments	<u>3,855,392</u>
Total	<u>\$5,894,519</u>

Collateralization of Cash Deposits

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

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

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

B. Notes and Contracts Receivable

The City received funds from Federal, State and County to be used for community development. These funds were borrowed for improvements to existing businesses and are to be paid back to the City with interest at 3.00 percent over 20 years. The balance on these loans at December 31, 2018 was \$53,543.

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Due From Other Governmental Units

Amounts due from other governmental units as of December 31, 2018 are as follows:

Fund	Blue Earth County	Other	Total
General	\$ 4,342	\$	\$ 4,342
Special Revenue:			
Fire		34,948	34,948
Debt Service:			
2016A Improvement	2,450		2,450
Capital Projects:			
Tax Increment District #2-9	771		771
Totals	<u>\$ 7,563</u>	<u>\$ 34,948</u>	<u>\$ 42,511</u>

5. Capital Assets

Capital asset activity for the City for the year ended December 31, 2018 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 405,357	\$	\$	\$ 405,357
Construction in progress	708,859	36,359	745,218	708,859
Total capital assets, not being depreciated	<u>1,114,216</u>	<u>36,359</u>	<u>745,218</u>	<u>405,357</u>
Capital assets, being depreciated:				
Land improvements	37,509			37,509
Buildings	922,778	745,218		1,667,996
Infrastructure	8,979,248	3,960		8,983,208
Machinery and equipment	549,080	161,698	27,500	683,278
Vehicles	622,916		24,282	598,634
Total capital assets, being depreciated	<u>11,111,531</u>	<u>910,876</u>	<u>51,782</u>	<u>11,970,625</u>
Less accumulated depreciation for:				
Land improvements	21,492	2,501		23,993
Buildings	799,029	33,113		832,142
Infrastructure	2,099,627	382,483		2,482,110
Machinery and equipment	390,378	38,251	11,458	417,171
Vehicles	526,816	31,105	24,282	533,639
Total accumulated depreciation	<u>3,837,342</u>	<u>487,453</u>	<u>35,740</u>	<u>4,289,055</u>
Total capital assets, being depreciated, net	<u>7,274,189</u>	<u>423,423</u>	<u>16,042</u>	<u>7,681,570</u>
Governmental activities capital assets, net	<u>\$ 8,388,405</u>	<u>\$ 459,782</u>	<u>\$ 761,260</u>	<u>\$ 8,086,927</u>

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 47,313	\$	\$	\$ 47,313
Capital assets, being depreciated:				
Buildings and improvements	12,572			12,572
Infrastructure	11,105,027	331,901		11,436,928
Machinery and equipment	65,190	10,073		75,263
Total capital assets, being depreciated	11,182,789	341,974		11,524,763
Less accumulated depreciation for:				
Buildings and improvements	12,572			12,572
Infrastructure	4,517,641	322,344		4,839,985
Machinery and equipment	46,964	3,148		50,112
Total accumulated depreciation	4,577,177	325,492		4,902,669
Total capital assets, being depreciated, net	6,605,612	16,482		6,622,094
Business-type activities capital assets, net	\$ 6,652,925	\$ 16,482	\$	\$ 6,669,407

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

Governmental Activities:

General government	\$ 22,547
Public safety	42,299
Public works	413,297
Culture and recreation	9,310

Total depreciation expense - governmental activities \$ 487,453

Business-Type Activities:

Water	\$ 159,837
Sewer	165,655

Total depreciation expense - business-type activities \$ 325,492

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets (Continued)

Intangibles - Sewer Hookup Rights

The City entered into a Sanitary Sewer System Interconnection agreement with the City of Mankato. The City of Mankato is required to operate and maintain the interconnection and it is owned by the City of Mankato. The City is making payments totaling \$1,210,829 to the City of Mankato to help with the construction costs. The City will also reimburse the City of Mankato for all costs associated with maintenance of the lift station and forcemain based on the City's flow percentage received at the lift station. The City is amortizing these sewer hookup rights over 20 years (\$60,541 per year). The balance of the hookup rights at December 31, 2018 was \$787,041 and is included in the City's infrastructure capital assets.

6. 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.

G.O. Revenue Bonds

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

Loans Payable

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

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

A summary of interest rates, maturities and December 31, 2018 balances are as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2018
General Obligation Improvement Bonds:			
Series 2014A Improvement	3.00-3.50%	2/1/2035	\$ 2,774,971
Series 2014B Improvement	3.00-3.63%	2/1/2035	1,565,000
Series 2016A Improvement	2.00-3.00%	2/1/2037	1,405,000
Series 2017A Improvement	3.50%	2/1/2032	331,000
General Obligation Revenue Bonds:			
Water and Sewer 2014A	3.00-3.50%	2/1/2035	1,035,029
Water and Sewer 2016A	2.00-3.00%	2/1/2037	465,000
General Obligation Revenue Note:			
2009 PFA	1.88%	2/1/2029	191,000
2010 PFA	1.86%	2/1/2029	368,000
2011 PFA	1.91%	2/1/2031	579,000
2016 PFA	1.05%	2/1/2036	732,030
Loan payable to the City of Mankato	1.88%	8/1/2028	770,687
Unamortized Premium			99,204
Compensated Absences			14,657
Total Long-Term Debt			<u>\$ 10,330,578</u>

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

Long-term liability activity for the year ended December 31, 2018 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Improvement Bonds:					
Series 2006A	\$ 15,000	\$	\$ 15,000	\$	\$
Series 2014A	2,906,071		131,100	2,774,971	134,743
Series 2014B	1,640,000		75,000	1,565,000	75,000
Series 2016A	1,465,000		60,000	1,405,000	60,000
Series 2017A	350,000		19,000	331,000	19,000
Total	<u>6,376,071</u>		<u>300,100</u>	<u>6,075,971</u>	<u>288,743</u>
Unamortized Premium	82,566		4,632	77,934	4,632
Compensated Absences	8,478	1,543	289	9,732	
Governmental Activities Long-term Liabilities	<u>6,467,115</u>	<u>1,543</u>	<u>305,021</u>	<u>6,163,637</u>	<u>293,375</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Revenue Bonds:					
Series 2014A	1,083,929		48,900	1,035,029	50,256
Series 2016A	485,000		20,000	465,000	20,000
PFA Loans:					
PFA 2009	206,000		15,000	191,000	16,000
PFA 2010	398,000		30,000	368,000	30,000
PFA 2011	618,000		39,000	579,000	40,000
PFA 2016	757,659	13,371	39,000	732,030	39,000
LOAN PAYABLE					
Loan payable to the City of Mankato	840,111		69,424	770,687	70,736
Total	<u>4,388,699</u>		<u>261,324</u>	<u>4,140,746</u>	<u>265,992</u>
Unamortized Premium	22,522		1,252	21,270	1,252
Compensated Absences	3,862	1,063		4,925	
Business-type Activities Long-term Liabilities	<u>4,415,083</u>	<u>1,063</u>	<u>262,576</u>	<u>4,166,941</u>	<u>267,244</u>
Total	<u>\$ 10,882,198</u>	<u>\$ 2,606</u>	<u>\$ 567,597</u>	<u>\$ 10,330,578</u>	<u>\$ 560,619</u>

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2018, over the life of the debt, are summarized below:

Years	General Obligation Improvement Bonds		General Obligation Revenue Bonds / Notes		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2019	\$ 269,743	\$ 170,604	\$ 19,000	\$ 11,253	\$	\$	\$ 288,743	\$ 181,857
2020	269,743	163,111	20,000	10,570			289,743	173,681
2021	278,384	155,515	20,000	9,870			298,384	165,385
2022	287,026	147,683	21,000	9,153			308,026	156,836
2023	287,026	139,723	22,000	8,401			309,026	148,124
2024-2028	1,555,681	571,765	119,000	29,945			1,674,681	601,710
2029-2033	1,799,498	319,528	110,000	7,870			1,909,498	327,398
2034-2037	997,870	44,839					997,870	44,839
Totals	<u>\$ 5,744,971</u>	<u>\$ 1,712,769</u>	<u>\$ 331,000</u>	<u>\$ 87,062</u>	<u>\$</u>	<u>\$</u>	<u>\$ 6,075,971</u>	<u>\$ 1,799,831</u>
<u>Business-Type Activities</u>								
2019	\$	\$	\$ 195,256	\$ 76,853	\$ 70,736	\$ 15,486	\$ 265,992	\$ 92,339
2020			197,258	72,971	72,074	14,173	269,332	87,144
2021			200,616	69,031	73,436	12,836	274,052	81,867
2022			204,974	65,044	74,825	11,473	279,799	76,517
2023			206,974	60,977	76,240	10,084	283,214	71,061
2024-2028			1,109,319	241,030	403,376	28,656	1,512,695	269,686
2029-2033			886,502	125,636		1,184	886,502	126,820
2034-2037			369,160	27,927			369,160	27,927
Totals	<u>\$</u>	<u>\$</u>	<u>\$ 3,370,059</u>	<u>\$ 739,468</u>	<u>\$ 770,687</u>	<u>\$ 93,892</u>	<u>\$ 4,140,746</u>	<u>\$ 833,359</u>

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Individual Fund Disclosures

Transfers during the year ended December 31, 2018 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 45,000	\$ 66,890
Special Revenue		
Fire	56,752	
Gambling Fund	13,503	
Economic Development - State		3,365
Capital Projects:		
CSAH 26 Reconstruction	261,494	
2014 Construction Fund	538,710	
2015 Construction Fund	11,510	
Public Works Building		12,928
Public Improvement Revolving		254,719
Debt Service		
2017A Improvement	12,928	
2014A/B Improvement		811,714
2006 G.O. Improvement Bond		45,049
Enterprise Funds:		
Water	299,768	
Refuse		45,000
Totals	<u>\$ 1,239,665</u>	<u>\$ 1,239,665</u>

Excess expenditures over budgeted appropriations at the individual fund level during 2018 are as follows:

General Fund	\$ 204,479
Fire Fund	33,191

All excess expenditures were the result of planned processes.

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Fund Equity

The City has assigned portions of the fund equity in the governmental funds. A summary of the assigned portion of the fund equity at December 31, 2018 is as follows:

	General	Fire	Other Governmental Funds	Total Governmental Funds
Assigned for				
Administration	\$ 7,436	\$	\$	\$ 7,436
City hall	13,453			13,453
Police car and equipment	20,730			20,730
Police building	51,600			51,600
Police forfeitures	38,771			38,771
Emergency management	15,731			15,731
Public works truck and equipment	49,013			49,013
Street Improvement	94,476			94,476
Park playground	23,803			23,803
Park maintenance equipment	9,441			9,441
Park land dedication	40,983			40,983
Park building	61,000			61,000
City signs	4,596			4,596
Holiday light	6,909			6,909
Economic development	13,952			13,952
Street lights	10,650			10,650
Capital outlay			292,149	292,149
Fire truck		286,139		286,139
Fire equipment		86,456		86,456
Fire building and rent		170,342		170,342
Fire department operations		213,465		213,465
Total Assigned	\$ 462,544	\$756,402	\$ 292,149	\$ 1,511,095

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans - Statewide

Plan Description

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

1. General Employees Retirement Plan - All full-time and certain part-time employees of the City of Madison Lake are covered by General Employee Retirement Plan. General Employee Retirement Plan members belong to either the Coordinated Plan. Coordinated Plan members are covered by Social Security.
2. Public Employees Police and Fire Fund - The Public Employees Police and Fire Fund, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Public Employees Police and Fire Fund also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested Terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. General Employee Retirement Plan Benefits

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. 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.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

2. Public Employees Police and Fire Fund Benefits

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

Beginning in 2019, the COLA will be fixed at 1 percent. Under funding measurements from 2017, the 2.5 percent COLA trigger was never expected to occur and was subsequently removed from law. Post retirement increases are given each year except for annuitants who have been receiving a benefit for only 31 to 41 months. These annuitants will receive a prorated amount of the increase on a sliding scale.

Contributions

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

1. General Employee Retirement Plan Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019; the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employee Retirement Plan for the year ended December 31, 2018, were \$10,099. The City's contributions were equal to the required contributions as set by state statute.

2. Public Employees Police and Fire Fund Contributions

Legislation increased both employee and employer contribution rates in the Police and Fire Plan. Employee rates increased from 10.80 percent of pay to 11.30 percent and employer rates increase from 16.20 percent to 16.95 percent on January 1, 2019. On January 1, 2020 employee rates increase to 11.80 percent and employer rates increase to 17.70 percent. The [entity's] contributions to the Police and Fire Fund for the year ended December 31, 2018 were \$24,520. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employee Retirement Plan Pension Costs

At December 31, 2018, the City reported a liability of \$110,952 for its proportionate share of the General Employee Retirement Plan's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. 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 \$3,700. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was .0020% at the end of the measurement period and .0028% for the beginning of the period.

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019;

For the year ended December 31, 2018 the City recognized pension expense of \$10,099 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$863 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City reported its proportionate share of the General Employee Retirement Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 4,058	\$ 4,103
Changes in actuarial assumptions	9,328	32,025
Difference between projected and actual investment earnings		2,551
Changes in proportion	20,299	47,025
Contributions paid to GERS subsequent to the measurement date	<u>4,503</u>	
 Total	 <u>\$ 38,188</u>	 <u>\$ 85,704</u>

\$4,503 reported as deferred outflows of resources related to pensions City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	<u>Pension Expense Amount</u>
2019	\$ (12,639)
2020	(13,136)
2021	(23,938)
2022	(2,306)

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

2. Public Employees Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$153,489 for its proportionate share of the Public Employees Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2018, the City’s proportion was .0144% at the end of the measurement period and .0150% for the beginning of the period. The City also recognized \$1,296 for the year ended December 31, 2018 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2018, the City recognized pension expense of \$24,520 for its proportionate share of the Public Employees Police and Fire Fund’s pension expense.

At December 31, 2018, the City reported its proportionate share of the Public Employees Police and Fire Fund’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 6,336	\$ 32,065
Changes in actuarial assumptions	20,117	74,608
Difference between projected and actual investment earnings		64,523
Changes in proportion	107,318	
Contributions paid to GERF subsequent to the measurement date	<u>12,434</u>	
 Total	 <u>\$ 146,205</u>	 <u>\$ 171,196</u>

\$12,434 reported as deferred outflows of resources related to pensions from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	<u>Pension Expense Amount</u>
2019	\$ 3,841
2020	3,842
2021	(6,219)
2022	(39,883)
2023	994

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

	General Employee Plan	Police and Fire Plan
Inflation	2.5% per year	2.5% per year
Salary Growth	3.25% after 26 years of service	3.25% after 25 years of service
Investment Rate of Return	7.50%	7.50%

The following changes in actuarial assumptions occurred in 2018.

1. General Employee Retirement Plan
 - The morality projection scale was changed from MP-2015 to MP-2017.
 - The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2. Public Employees Police and Fire Fund
 - The morality projection scale was changed from MP-2016 to MP-2017.

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans - Statewide (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
Total	100%	

The discount rate used to measure the total pension liability in 2018 was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of General Employee Retirement Plan and Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate 6.5%	Discount Rate 7.5%	1% Increase in Discount Rate 8.5%
City's proportionate share of the GERF net pension liability	\$ 180,311	\$ 110,952	\$ 53,698
City's proportionate share of the PEPFF net pension liability	329,090	153,489	8,274

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.

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Defined Contribution Pension Plan - Volunteer Fire Relief Association

The following information is based upon the Madison Lake Firefighter's Relief Association ("Association") actuarial report for the year ended December 31, 2017 which is the latest information available. The City does not believe that the funded status changed significantly during 2018.

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, 2017, the plan covered 23 active firefighters and 7 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

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

Benefits Provided

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

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

Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$18,342 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2017, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's voluntary contributions to the plan for the year ended December 31, 2017 were \$5,059. The City's contributions were equal to the required contributions as set by state statute. The City made no voluntary contributions to the plan. Furthermore, the firefighter has no obligation to contribute to the plan.

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Pension Costs

At December 31, 2018, the City reported a net pension asset of \$275,095 for the plan. The net pension asset was measured as of December 31, 2017. 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, 2017. The following table presents the changes in net pension asset during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
	<u> </u>	<u> </u>	<u> </u>
Beginning January 1, 2017	\$ 286,544	\$ 461,281	\$ (174,737)
Changes for the year			
Service cost	13,076		13,076
Interest on pension liability (asset)	20,224		20,224
Municipal contributions		5,059	(5,059)
Investment earnings		46,780	(46,780)
Contributions (nonemployer)		32,886	(32,886)
Asset (gain)/loss		48,933	(48,933)
	<u> </u>	<u> </u>	<u> </u>
Total net changes	33,300	133,658	(100,358)
Ending balance December 31, 2017	<u>\$ 319,844</u>	<u>\$ 594,939</u>	<u>\$ (275,095)</u>

For the year ended December 31, 2018, the City recognized pension expense of \$133,658.

At December 31, 2018, the City reported deferred inflows of resources and deferred outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference between projected and actual investment earnings	\$	\$ 32,674
Change in assumption		<u>8,000</u>
	<u> </u>	<u> </u>
Total	<u>\$</u>	<u>\$ 40,674</u>

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Other amounts reported as deferred inflows of resources related to the plan will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2019	\$ (7,109)
2020	(6,579)
2021	(13,203)
2022	(11,119)
2023	(1,334)
Thereafter	(1,330)

Actuarial Assumptions

The total pension liability at December 31, 2018, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0 percent
- Inflation rate of 3.0 percent

There were no changes in actuarial assumptions in 2017.

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Unallocated Cash	5%	0.00%
Total	<u>100%</u>	

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Discount Rate

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

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate 5.0%	Discount Rate 6.0%	1% Increase in Discount Rate 7.0%
Defined benefit plan	\$ 265,798	\$ 275,095	\$ 283,928

Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

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

CITY OF MADISON LAKE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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.

11. 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).

B. *Contingent Liabilities*

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

C. *Concentrations*

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2018 was \$158,031 for LGA. This accounted for 18 percent of General fund revenues.

D. *Tax Increment Districts*

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

CITY OF MADISON LAKE, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

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

Fiscal Year Ended June 30	City's Portion of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	City's Proportionate Share of the Net Pension Liability (Asset) (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0030%	\$ 165,931		\$ 165,931	\$ 167,227	99%	78.7%
2015	0.0028%	145,111		145,111	163,848	89%	78.2%
2016	0.0023%	186,750	2,512	189,262	170,605	111%	68.9%
2017	0.0028%	178,750	2,262	181,012	167,405	108%	75.9%
2018	0.2000%	110,952	3,700	114,652	158,087	73%	79.5%
2019							
2020							
2021							
2022							
2023							

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

Fiscal Year Ended June 30	City's Portion of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	City's Proportionate Share of the Net Pension Liability (Asset) (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0100%	\$ 314,646	\$ 900	\$ 315,546	\$ 247,172	128%	87.1%
2015	0.0130%	147,710	1,170	148,880	103,935	143%	86.6%
2016	0.0120%	481,581	1,080	482,661	143,237	337%	63.9%
2017	0.0150%	202,518	1,350	203,868	145,233	140%	85.4%
2018	0.0144%	153,489	1,296	154,785	152,355	102%	88.8%
2019							
2020							
2021							
2022							
2023							

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

Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 11,879	\$ 11,879	\$	\$ 158,387	7.50%
2015	12,788	12,788		170,507	7.50%
2016	11,497	11,497		153,290	7.50%
2017	13,614	13,614		181,520	7.50%
2018	10,099	10,099		134,653	7.50%
2019					
2020					
2021					
2022					
2023					

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

Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 15,902	\$ 15,902	\$	\$ 135,563	11.73%
2015	21,710	21,710		134,012	16.20%
2016	22,212	22,212		137,114	16.20%
2017	24,843	24,843		153,352	16.20%
2018	24,520	24,520		151,358	16.20%
2019					
2020					
2021					
2022					
2023					

CITY OF MADISON LAKE, MINNESOTA
Schedule of Changes in the Fire Relief Association Net Pension Asset and Related Ratios
December 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability				
Service cost	\$ 13,076	\$ 13,804	\$ 11,501	\$ 11,221
Interest	20,224	19,868	15,929	16,146
Difference between expected and actual experience				
Changes of assumptions				
Changes of benefit terms		(10,668)	45,624	
Benefit payments		(34,000)	(23,000)	(4,990)
Net change in total pension liability	33,300	(10,996)	50,054	22,377
Total Pension Liability - beginning of year	286,544	297,540	247,486	225,109
Total Pension Liability - end of year	<u>\$ 319,844</u>	<u>\$ 286,544</u>	<u>\$ 297,540</u>	<u>\$ 247,486</u>
Plan Fiduciary Net Position				
Contributions - State and local	\$ 37,945	\$ 33,252	\$ 23,201	\$ 23,864
Net investment income	95,713	38,947	(4,291)	28,912
Benefit payments		(34,000)	(23,000)	(4,990)
Administrative expense		(10)		(161)
Net change in plan fiduciary net position	133,658	38,189	(4,090)	47,625
Plan Fiduciary Net Position - beginning of year	461,281	423,092	427,182	379,557
Plan Fiduciary Net Position - end of year	<u>\$ 594,939</u>	<u>\$ 461,281</u>	<u>\$ 423,092</u>	<u>\$ 427,182</u>
Net Pension Liability (Asset) - End of Year	\$ (275,095)	\$ (174,737)	\$ (125,552)	\$ (179,696)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	186.01%	160.98%	142.20%	172.61%

Schedule of Employer's Fire Relief Association Contributions

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Valuation of Plan Assets (a)	Actuarial Valuation of Plan Assets (b)	Net Pension Liability (Assets) (a-b)
12/31/2014	\$ 247,486	\$ 427,182	\$ (179,696)
12/31/2015	297,570	423,092	(125,522)
12/31/2016	286,544	461,281	(174,737)
12/31/2017	319,844	594,939	(275,095)

CITY OF MADISON LAKE, MINNESOTA

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

DECEMBER 31, 2018

**CITY OF MADISON LAKE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2018**

	Special Revenue				Debt Service	
	<u>225</u>	<u>230</u>	<u>231</u>	<u>800</u>	<u>340</u>	<u>362</u>
	Farmer's Market	Economic Development Loan - Federal	Economic Development Loan - State	Gambling	2006 G.O. Improvement Bond	2016A Improvement Bond
ASSETS						
Cash and investments	\$ 3,320	\$ 344,713	\$ 20,975	\$ 19,921	\$	\$ 312,580
Accounts receivable						
Taxes receivable delinquent						
Special assessments receivable:						
Deferred						399,003
Delinquent						872
Loan receivable		53,543				
Due from other governmental units						2,450
TOTAL ASSETS	<u>\$ 3,320</u>	<u>\$ 398,256</u>	<u>\$ 20,975</u>	<u>\$ 19,921</u>	<u>\$</u>	<u>\$ 714,905</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE						
Liabilities						
Accounts payable	\$	\$	\$	\$	\$	\$ 600
Total Liabilities						600
Deferred Inflows of Resources						
Unavailable:						
Property taxes						
Special assessments						399,875
Total Deferred Inflows of Resources						399,875
Fund Balance						
Restricted:						
Creditors						314,430
Community service				19,921		
Economic development		398,256	20,975			
Farmer's market	3,320					
Assigned						
Total Fund Balance (Deficit)	<u>3,320</u>	<u>398,256</u>	<u>20,975</u>	<u>19,921</u>		<u>314,430</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 3,320</u>	<u>\$ 398,256</u>	<u>\$ 20,975</u>	<u>\$ 19,921</u>	<u>\$</u>	<u>\$ 714,905</u>

Debt Service		Capital Projects						Total
<u>364</u> 2017A Improvement Bond	<u>499</u> 2004B G.O. PIR Refunding Bond	<u>401</u> Public Improvement Revolving	<u>412</u> Tax Increment District #2-9	<u>413</u> CSAH 26 Reconstruction	<u>415</u> 2015 Construction	<u>416</u> Tax Increment District #2-10	<u>420</u> Public Works Construction	Nonmajor
\$ 2,321	\$ 21,474	\$ 290,671 1,478	\$ 31,521 4,143	\$	\$	\$ 24,613	\$	\$ 1,072,109 1,478 4,143
	55,306	15,915						470,224 872 53,543 3,221
<u>\$ 2,321</u>	<u>\$ 76,780</u>	<u>\$ 308,064</u>	<u>\$ 36,435</u>	<u>\$</u>	<u>\$</u>	<u>\$ 24,613</u>	<u>\$</u>	<u>\$ 1,605,590</u>
\$	\$	\$	\$	\$	\$	\$	\$	\$ 600 600
			4,143					4,143
	55,306	15,915						471,096
	<u>55,306</u>	<u>15,915</u>	<u>4,143</u>					<u>475,239</u>
2,321	21,474							338,225 19,921
			32,292			24,613		476,136 3,320
		292,149						292,149
<u>2,321</u>	<u>21,474</u>	<u>292,149</u>	<u>32,292</u>			<u>24,613</u>		<u>1,129,751</u>
<u>\$ 2,321</u>	<u>\$ 76,780</u>	<u>\$ 308,064</u>	<u>\$ 36,435</u>	<u>\$</u>	<u>\$</u>	<u>\$ 24,613</u>	<u>\$</u>	<u>\$ 1,605,590</u>

CITY OF MADISON LAKE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	Special Revenue				Debt Service	
	<u>225</u>	<u>230</u>	<u>231</u>	<u>800</u>	<u>340</u>	<u>362</u>
	Farmer's Market	Economic Development Loan - Federal	Economic Development Loan - State	Gambling	2006 G.O. Improvement Bond	2016A Improvement Bond
REVENUES						
Property taxes	\$	\$	\$	\$	\$ 14,319	\$ 73,000
Tax increments						
Special assessments					1,293	61,538
Charges for services						
Investment income	69	7,211	444	4	942	6,538
Miscellaneous revenues		817		4,499		
Total Revenues	69	8,028	444	4,503	16,554	141,076
EXPENDITURES						
General government				750		
Economic development						
Debt service:						
Principal					15,000	60,000
Interest and fiscal charges					319	36,000
Capital outlay						
Total Expenditures				750	15,319	96,000
Excess (deficiency) of revenues over (under) expenditures	69	8,028	444	3,753	1,235	45,076
OTHER FINANCING SOURCES						
Transfers in				13,503		
Transfers out			(3,365)		(45,049)	
Total other financing sources			(3,365)	13,503	(45,049)	
Net change in fund balances	69	8,028	(2,921)	17,256	(43,814)	45,076
Fund Balance - beginning	3,251	390,228	23,896	2,665	43,814	269,354
Fund Balance - ending	\$ 3,320	\$ 398,256	\$ 20,975	\$ 19,921	\$	\$ 314,430

Debt Service		Capital Projects							Total
364 2017A Improvement Bond	499 2004B G.O. PIR Refunding Bond	401 Public Improvement Revolving	412 Tax Increment District #2-9	413 CSAH 26 Reconstruction	415 2015 Construction	416 Tax Increment District #2-10	420 Public Works Construction	Nonmajor	
\$ 25,000	\$	\$	\$	\$	\$	\$	\$	\$ 112,319	
			31,259			24,098		55,357	
		171						63,002	
		43						43	
810	449	10,770	659		16,200	515		44,611	
								5,316	
25,810	449	10,984	31,918		16,200	24,613		280,648	
								750	
			28,648			13,427		42,075	
19,000								94,000	
17,417								53,736	
					104,612		34,291	138,903	
36,417			28,648		104,612	13,427	34,291	329,464	
(10,607)	449	10,984	3,270		(88,412)	11,186	(34,291)	(97,632)	
12,928				261,494	11,510			299,435	
		(254,719)					(12,928)	(316,061)	
								(16,626)	
12,928		(254,719)		261,494	11,510		(12,928)	(16,626)	
2,321	449	(243,735)	3,270	261,494	(76,902)	11,186	(47,219)	(65,442)	
	21,025	535,884	29,022	(261,494)	76,902	13,427	47,219	1,195,193	
\$ 2,321	\$ 21,474	\$ 292,149	\$ 32,292	\$	\$	\$ 24,613	\$	\$ 1,129,751	

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CITY OF MADISON LAKE, MINNESOTA

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2018

**CITY OF MADISON LAKE, MINNESOTA
WATER FUND
Balance Sheet
December 31, 2018 and 2017**

	2018	2017
ASSETS		
Current Assets		
Cash and investments	\$	\$ 100,921
Accounts receivable	14,995	15,143
Special assessments receivable	2,098	1,075
Due from other governments		41,488
Total Current Assets	17,093	158,627
Noncurrent Assets		
Capital assets:		
Non-depreciable	35,471	35,471
Depreciable	5,062,035	4,721,624
Less: Accumulated depreciation	1,303,186	1,143,349
Total Capital Assets	3,794,320	3,613,746
TOTAL ASSETS	3,811,413	3,772,373
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pension activity	10,094	6,721
LIABILITIES		
Current Liabilities		
Accounts payable	1,318	1,621
Accrued expenses	1,693	1,251
Accrued interest	15,997	16,894
Customer deposits	9,774	8,436
Current maturities of bonds payable	133,170	131,695
Total Current Liabilities	161,952	159,897
Noncurrent Liabilities		
Bonds payable, net of current maturities, and premium	2,068,280	2,188,504
Compensated absences payable	2,323	1,898
Net pension liability	29,081	44,784
Total Noncurrent Liabilities	2,099,684	2,235,186
TOTAL LIABILITIES	2,261,636	2,395,083
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pension activity	22,464	4,678
Net Position		
Net investment in capital assets	1,592,870	1,293,547
Unrestricted	(55,463)	85,786
Total Net Position	\$ 1,537,407	\$ 1,379,333

**CITY OF MADISON LAKE, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2018 and 2017**

	2018	2017
Operating Revenue		
User fees	\$ 192,210	\$ 198,370
Operating Expenses		
Employee services	42,341	38,615
Employee benefits and retirements	16,112	21,357
Materials and supplies	13,145	16,928
Repairs and maintenance	8,023	1,513
Utilities	19,257	12,734
Depreciation	159,837	100,156
Contractual services	3,988	5,904
Professional services	13,218	15,278
Other charges	23,839	4,355
Total	<u>299,760</u>	<u>216,840</u>
Operating Loss	<u>(107,550)</u>	<u>(18,470)</u>
Nonoperating Revenues (Expenses)		
Interest income	1,410	1,398
Miscellaneous income	5,741	4,897
Interest expense	<u>(41,295)</u>	<u>(51,244)</u>
Total Nonoperating Revenues (Expenses)	<u>(34,144)</u>	<u>(44,949)</u>
Net Loss Before Transfers	<u>(141,694)</u>	<u>(63,419)</u>
Transfers in	<u>299,768</u>	<u>158,819</u>
Change in Net Position	158,074	95,400
NET POSITION - Beginning of Year	<u>1,379,333</u>	<u>1,283,933</u>
NET POSITION - End of Year	<u>\$ 1,537,407</u>	<u>\$ 1,379,333</u>

CITY OF MADISON LAKE, MINNESOTA
SEWER FUND
Balance Sheet
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and investments	\$ 775,629	\$ 774,190
Accounts receivable	31,530	32,076
Special Assessments - Deferred	35,302	35,302
Special Assessments - Delinquent	3,316	1,700
Total Current Assets	845,777	843,268
Noncurrent Assets		
Capital assets		
Nondepreciable	11,842	11,842
Depreciable	6,462,728	6,461,165
Less: Accumulated depreciation	3,599,483	3,433,828
Total Capital Assets	2,875,087	3,039,179
TOTAL ASSETS	3,720,864	3,882,447
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pension activity	9,564	6,657
LIABILITIES		
Current Liabilities		
Accounts payable	19,540	5,711
Accrued expenses	1,693	1,251
Accrued interest	42,503	44,829
Loans payable, current	70,736	69,423
Bonds payable, current	62,086	60,204
Total Current Liabilities	196,558	181,418
Noncurrent Liabilities		
Bonds payable, net current portion and premium	1,127,793	1,190,708
Loans payable, net of current portion	699,951	770,687
Compensated absences payable	2,323	1,898
Net pension liability	27,631	44,784
Total Noncurrent Liabilities	1,857,698	2,008,077
TOTAL LIABILITIES	2,054,256	2,189,495
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pension activity	21,340	4,678
Net Position		
Net investment in capital assets	914,521	1,788,267
Restricted for Infrastructure		58,928
Unrestricted	740,311	(152,264)
Total Net Position	\$ 1,654,832	\$ 1,694,931

**CITY OF MADISON LAKE, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2018 and 2017**

	2018	2017
Operating Revenue		
Sales	\$ 335,139	\$ 324,111
Operating Expenses		
Employee services	39,970	37,765
Employee benefits and retirements	12,535	20,843
Materials and supplies	4,334	2,419
Repairs and maintenance	5,285	3,900
Utilities	24,583	21,417
Depreciation	165,655	146,618
Contractual services	8,137	1,996
Other charges	129,146	130,559
Total	389,645	365,517
Operating Loss	(54,506)	(41,406)
Nonoperating Revenues (Expenses)		
Interest income	6,881	723
Miscellaneous income	53,402	59,370
Interest expense	(45,876)	(70,548)
Total Nonoperating Revenues (Expenses)	14,407	(10,455)
Net Loss Before Transfers	(40,099)	(51,861)
Transfers in		51,898
Change in Net Position	(40,099)	37
NET POSITION - Beginning of Year	1,694,931	1,694,894
NET POSITION - End of Year	\$ 1,654,832	\$ 1,694,931

**CITY OF MADISON LAKE, MINNESOTA
REFUSE FUND
Balance Sheet
December 31, 2018 and 2017**

	2018	2017
ASSETS		
Current Assets		
Cash and investments	\$ 68,332	\$ 60,926
Accounts receivable	11,898	11,888
Special assessments		
Delinquent	1,353	694
TOTAL ASSETS	81,583	73,508
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pension activity	2,074	1,615
LIABILITIES		
Current Liabilities		
Accounts payable	3,819	
Accrued expenses	453	774
Total Current Liabilities	4,272	774
Noncurrent Liabilities		
Net pension liability	5,945	11,126
Compensated absences payable	279	66
Total Noncurrent Liabilities	6,224	11,192
TOTAL LIABILITIES	10,496	11,966
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pension activity	4,593	1,161
Net Position		
Unrestricted	\$ 68,568	\$ 61,996

**CITY OF MADISON LAKE, MINNESOTA
REFUSE FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2018 and 2017**

	2018	2017
Operating Revenues		
Sales	\$ 153,273	\$ 132,341
Operating Expenses		
Employee services	8,772	7,355
Employee benefits and retirements	848	3,310
Materials and supplies	1,489	409
Other charges	92,021	78,287
Total	<u>103,130</u>	<u>89,361</u>
Operating Income	<u>50,143</u>	<u>42,980</u>
Nonoperating Revenues		
Interest income	<u>1,429</u>	
Net Income Before Transfers	51,572	42,980
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>
Net Income (Loss)	6,572	(2,020)
NET POSITION - Beginning of Year	<u>61,996</u>	<u>64,016</u>
NET POSITION - End of Year	<u>\$ 68,568</u>	<u>\$ 61,996</u>

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

To the City Council
City of Madison Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Madison Lake, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Madison Lake, Minnesota's basic financial statements, and have issued our report thereon dated May 13, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Madison Lake, Minnesota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the City Council
City of Madison Lake, Minnesota

City of Madison Lake, Minnesota's Response to Findings

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

Purpose of this Report

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

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
May 13, 2019

**CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

SEGREGATION OF DUTIES

2016-001 Limited Segregation of Duties

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

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

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

Internal control over payroll

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

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

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.

**CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

SEGREGATION OF DUTIES – Continued

Internal control over cash receipts

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

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

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.

Internal control over investment transactions

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

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



RESPONSES – FINANCIAL STATEMENT AUDIT

2016-001 - SEGREGATION OF DUTIES

Internal control over payroll

Management response:

The City has taken measures to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of payroll registers, earnings records, and payroll reports by the City Administrator. The interim City Administrator recommends filling the part-time clerical support staff position to add to the checks and balances and processing accuracy.

Updated progress since prior year:

There is no change in this finding.

Internal control over disbursements

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

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.



RESPONSES – FINANCIAL STATEMENT AUDIT

SEGREGATION OF DUTIES – Continued

Internal control over utility billing

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

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
YEAR ENDED DECEMBER 31, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

2016-002 FINANCIAL REPORT PREPARATION

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

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

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting

Recommendation: Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Banyon receipt and disbursement information to the amount reported in the financial statements plus or minus any applicable accruals.



RESPONSES – FINANCIAL STATEMENT AUDIT

2016-002 FINANCIAL REPORT PREPARATION

Management response:

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

Updated progress since prior year:

There is no change in this finding.

MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the City of Madison Lake, Minnesota, as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 13, 2019.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Madison Lake, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Madison Lake, Minnesota's noncompliance with the above referenced provisions.

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

Smith, Schaffer and Associates, Ltd.

Rochester, Minnesota
May 13, 2019