

City of Milaca
Milaca, Minnesota
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

City of Milaca, Minnesota
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City of Milaca
Milaca, Minnesota
INTRODUCTORY SECTION
December 31, 2015

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City of Milaca, Minnesota
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS
December 31, 2015

Harold Pedersen	Mayor
Laurie Gahm	Council Person
Norris Johnson	Council Person
David Dillan	Council Person
Ken Muller	Council Person
Greg Lerud	City Manager
Tracy Gann-Olehy	City Treasurer

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City of Milaca
Milaca, Minnesota
FINANCIAL SECTION
December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Milaca, Minnesota

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 Milaca, Minnesota, as of and for the year ended December 31, 2015, 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 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 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 Milaca, Minnesota, as of December 31, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 10 through 16 and 26 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milaca, Minnesota's financial statements as a whole. The introductory section, combining and individual nonmajor fund statements and schedules and supplementary financial 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 are the responsibility of management and were derived from and related 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 express no opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016 on our consideration of the City of Milaca, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standard* in considering City of Milaca, Minnesota's internal control over financial reporting and compliance.



Althoff & Nordquist, LLC
Pine City, Minnesota
March 29, 2016

City of Milaca
Milaca, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

City of Milaca, Minnesota
Management's Discussion and Analysis - Unaudited

We are providing readers with this narrative overview and analysis of the financial activities of the City of Milaca for the fiscal year ended December 31, 2015. We encourage readers to use the information presented here in conjunction with the additional information contained in the city's letter of transmittal and in the financial statements.

Financial Highlights

- * At the close of the fiscal year, the assets of the City of Milaca exceeded its liabilities by \$10,449,368 (net position). Of this amount, \$3,196,058 (unrestricted net position) may be used to meet the city's ongoing obligations to citizens and creditors.
- * The city's total net position decreased by \$544,371 in 2015.
- * At the close of the fiscal year, governmental fund balances totaled \$2,160,226.
- * As of December 31, 2015, the unassigned fund balance of the General Fund was \$1,010,164. This amount was 51.9% of the General Fund's total expenditures in 2015.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the city's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The city also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The city's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the city's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Position. This is the city-wide statement of financial position presenting information that includes all of the city's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city as a whole is improving or deteriorating. Evaluation of the overall economic health of the city would extend to other non-financial factors such as diversification of the taxpayer base or the condition of city infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities, which reports how the city's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the city's distinct activities or functions on revenues provided by the city's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the city that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, culture and recreation. Business-type activities include wastewater utilities, water utilities, motor vehicle registrar, and municipal liquor store.

City of Milaca, Minnesota
Management's Discussion and Analysis - Unaudited

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The city uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the city's most significant funds rather than the city as a whole. Major funds are separately reported while all others are combined into a single, aggregate presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The city has two kinds of funds

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the city's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-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 the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund and major debt service fund. Budgetary comparison schedules for other special revenue, capital project and debt service funds can be found in a later section of this report. These statements and schedules demonstrate compliance with the city's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the city charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. The city currently has only enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services, such as Water Utilities, are provided to customers external to the city organization.

Notes to the financial statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

City of Milaca, Minnesota
Management's Discussion and Analysis - Unaudited

Financial Analysis of the City as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the city as a whole.

The city's net position as of fiscal year-end were \$10,449,368. This was a \$544,371 decrease over last year's net assets of \$10,993,739. The following table provides a summary of the city's net position at December 31:

Summary of Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 2,449,185	\$ 2,471,089	\$ 3,234,689	\$ 3,037,274	\$ 5,683,874	\$ 5,508,363
Capital assets (net)	6,699,759	6,415,524	5,418,949	5,715,419	12,118,708	12,130,943
Total Assets	<u>9,148,944</u>	<u>8,886,613</u>	<u>8,653,638</u>	<u>8,752,693</u>	<u>17,802,582</u>	<u>17,639,306</u>
Deferred outflows	183,405	--	--	--	183,405	--
Total Assets and Deferred outflows	<u>9,332,349</u>	<u>8,886,613</u>	<u>8,653,638</u>	<u>8,752,693</u>	<u>17,985,987</u>	<u>17,639,306</u>
Other liabilities	1,416,709	488,228	262,175	331,346	1,678,884	819,574
Long-term liabilities	3,354,288	3,135,010	2,359,064	2,690,983	5,713,352	5,825,993
Total Liabilities	<u>4,770,997</u>	<u>3,623,238</u>	<u>2,621,239</u>	<u>3,022,329</u>	<u>7,392,236</u>	<u>6,645,567</u>
Deferred Inflows	144,383	--	--	--	144,383	--
Net Position:						
Net investment in capital assets	3,345,471	3,280,514	3,059,884	3,015,439	6,405,355	6,295,953
Restricted	847,955	829,945	--	--	847,955	829,945
Unrestricted	223,543	1,152,916	2,972,515	2,714,925	3,196,058	3,867,841
Total Net Position	<u>\$ 4,416,969</u>	<u>\$ 5,263,375</u>	<u>\$ 6,032,399</u>	<u>\$ 5,730,364</u>	<u>\$ 10,449,368</u>	<u>\$ 10,993,739</u>

The city reported positive balances in net position for both governmental and business-type activities. Net position decreased \$846,406 for governmental activities and increased by \$302,035 for business-type activities. The city's overall financial position slightly declined during 2015 primarily due to the city recording a prior period adjustment related to pensions.

City of Milaca, Minnesota
Management's Discussion and Analysis - Unaudited

Financial Analysis of the City as a Whole (Continued)

Summary of Changes in Net position

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues						
Charge for services	\$ 237,197	\$ 270,866	\$ 3,193,722	\$ 1,652,297	\$ 3,430,919	\$ 1,923,163
Operating grants and contributions	247,207	179,898	--	--	247,207	179,898
Capital grants and contributions	50,000	--	--	--	50,000	--
General revenues						
Property taxes	1,039,901	1,002,245	--	--	1,039,901	1,002,245
Intergovernmental	915,034	844,665	--	--	915,034	844,665
Sale of assets	--	--	--	--	--	--
Tax increment	--	--	--	--	--	--
Investment earnings	38,410	18,117	20,707	(31,548)	59,117	(13,431)
Other revenue	480,393	195,056	--	--	480,393	195,056
Total Revenue	<u>3,008,142</u>	<u>2,510,847</u>	<u>3,214,429</u>	<u>1,620,749</u>	<u>6,222,571</u>	<u>4,131,596</u>
Program Expenses:						
General government	397,734	383,467	--	--	397,734	383,467
Public safety	863,596	490,769	--	--	863,596	490,769
Public works	294,138	244,428	--	--	294,138	244,428
Culture and recreation	465,372	349,064	--	--	465,372	349,064
EDA	65,707	67,855	--	--	65,707	67,855
Debt service	424,972	139,668	--	--	424,972	139,668
Miscellaneous	257,791	698,193	--	--	257,791	698,193
Interest on long-term debt	119,188	118,090	--	--	119,188	118,090
Water	--	--	434,367	527,716	434,367	527,716
Sewer	--	--	337,831	328,910	337,831	328,910
Liquor	--	--	1,935,113	335,672	1,935,113	335,672
Motor vehicles	--	--	152,853	141,708	152,853	141,708
Total Expenses	<u>2,888,498</u>	<u>2,491,534</u>	<u>2,860,164</u>	<u>1,334,006</u>	<u>5,748,662</u>	<u>3,825,540</u>
Increase in net assets before transfers	119,644	19,313	354,265	286,743	473,909	306,056
Transfers	52,230	254,316	(52,230)	(254,316)	--	--
Change in net position	171,874	273,629	302,035	32,427	473,909	306,056
Prior period adjustment	(1,018,280)	--	--	--	(1,018,280)	--
Beginning net position	5,263,375	4,989,746	5,730,364	5,697,937	10,993,739	10,687,683
Ending net position	<u>\$ 4,416,969</u>	<u>\$ 5,263,375</u>	<u>\$ 6,032,399</u>	<u>\$ 5,730,364</u>	<u>\$ 10,449,368</u>	<u>\$ 10,993,739</u>

City of Milaca, Minnesota
Management's Discussion and Analysis - Unaudited

Financial Analysis of the City as a Whole (Continued)

Significant Changes in Total Net Position:

The total net assets for the governmental activities and the business-type activities did not change significantly in 2014.

Budgetary Highlights and Changes in Fund Balance/Net Position for the Major Funds:

Significant budgetary variances between the final amended budgets and actual results are explained below:

General Fund:

Actual revenues exceeded budgeted revenues by \$106,618. Significant excesses were realized in general property taxes, intergovernmental, and miscellaneous revenues.

Actual expenses were lower than budgeted expenses by \$142,012. The most significant savings came from culture recreation, public safety, and the general government budgets.

Transfers out matched budgeted transfers out.

The actual ending Fund Balance of \$1,395,303 was \$248,630 higher than the budgeted ending Fund Balance of \$1,146,673.

Water Fund

Sales revenues were \$30,655 below budget. Total actual revenues were greater than the budgeted revenues by \$18,092.

The cost of employee services was \$3,531 over budget. Total expenses were \$73,094 short of the budgeted total expenses.

Sewer Fund

Sales revenues fell short of the budget by \$24,778. Total actual revenues were \$19,768 under budget.

The cost of employee services were \$5,712 over budget. Total actual expenses were \$10,961 over the budgeted total expenses.

Liquor Fund

Liquor store actual sales exceeded budgeted sales by \$83,678.

The cost of employee services were \$13,981 under budget. Total actual expenses were \$76,293 under the budgeted total expenses.

Motor Vehicle Registrar

Actual revenues exceeded budgeted revenues by \$12,537 while total expenses were \$1,839 more than budgeted expenses.

City of Milaca, Minnesota
Management's Discussion and Analysis - Unaudited

Capital Assets and Debt Administration

Capital Assets . As of December 31, 2015, the city had invested \$23,596,301 in capital assets, including buildings, facilities, vehicles, and equipment. This amount represents a net increase prior to depreciation of \$832,244 from last year. Total depreciation expense for the year was \$861,294. The following table provides a summary of the city's capital assets for the year ended:

	Capital Assets					
	Net of Accumulated Depreciation					
	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Non-Depreciable Assets:						
Land	\$ 84,840	\$ 84,840	\$ 54,788	\$ 54,788	\$ 139,628	\$ 139,628
Construction in progress	--	--	--	--	--	--
Depreciable Assets:						
Buildings	5,027,946	4,689,386	4,770,954	4,770,954	9,798,900	9,460,340
Improvements	5,557,244	5,431,456	4,955,201	4,941,739	10,512,445	10,373,195
Machinery, equipment	2,605,414	2,245,606	539,914	545,288	3,145,328	2,790,894
Total	<u>\$ 13,275,444</u>	<u>\$ 12,451,288</u>	<u>\$ 10,320,857</u>	<u>\$ 10,312,769</u>	<u>\$ 23,596,301</u>	<u>\$ 22,764,057</u>

For further information, please refer to Note 3: D Capital Assets, pages 44-45.

Debt administration . At year end, the city had \$5,713,352 in general obligation bonds and other long-term debt outstanding, of which \$658,984 is due within one year. The following table presents a summary of the city's outstanding long-term debt for the year ended.

	Outstanding Bonds					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Special assessment debt	\$ 1,746,010	\$ 1,990,010	\$ --	\$ --	\$ 1,746,010	\$ 1,990,010
Notes payable	171,000	225,000	--	--	171,000	225,000
Capital lease payable	32,278	47,306	340,064	387,983	372,342	435,289
Revenue bonds	1,405,000	1,040,000	2,019,000	2,303,000	3,424,000	3,343,000
Total	<u>\$ 3,354,288</u>	<u>\$ 3,302,316</u>	<u>\$ 2,359,064</u>	<u>\$ 2,690,983</u>	<u>\$ 5,713,352</u>	<u>\$ 5,993,299</u>

For further information please refer to Note 3: G. Long-term Debt, pages 46-47.

City of Milaca, Minnesota
Management's Discussion and Analysis - Unaudited

Factors Bearing on the City's Future

The last several years have been financially challenging for local governments, and the City of Milaca has not been immune from the economic struggles of the state and country. The City has a long history of being conservative in budgeting revenues and expenditures, and that happened again in 2015.

While there are certainly challenges going forward, the city has several factors in its favor. First is a city council and staff that work to manage the city funds to not only provide the high level of services that residents expect, but also to put the city in a position to take advantage of opportunities to save money and make operations more efficient. An example of this is the City has been contracting with the City of Ogilvie to provide administrative services. This relationship continues to bring in about \$44,000 of additional revenue to the City of Milaca, while only marginally increasing expenses.

Second, the city's facilities are in excellent condition. All of the city's main buildings have been constructed or significantly improved in the past ten years. While there are still several roads that need rehabilitation, the vast majority of city streets are in good to excellent condition. The water and sewer infrastructure continually undergoes regular maintenance.

Going forward there are some challenges. The city is working to expand the tax base - both through housing development and expansion of current businesses as well as attracting new businesses. Like most small greater Minnesota cities, the city struggles to compete and attract business and housing. Secondly is maintaining and adding to the single-family housing stock. New home construction has been non-existent for the past several years and the city has a sufficient number of improved single-family lots that are ready to be developed.

The city council will continue to evaluate options to ensure city services and systems are operated in a manner that is as efficient as possible and provide the best value for city residents and customers.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City of Milaca finances. Individuals or firms with questions about this report should direct inquiries to the City of Milaca, City Manager Greg Lerud, 255 First Street, Milaca, Minnesota 56353.

City of Milaca
Milaca, Minnesota
BASIC FINANCIAL STATEMENTS
December 31, 2015

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City of Milaca, Minnesota
STATEMENT OF NET POSITION
December 31, 2015

	Governmental Activities	Business - Type Activities	2015 Totals	2014 Totals
ASSETS				
Cash and cash equivalents	\$ 2,095,741	\$ 2,612,575	\$ 4,708,316	\$ 4,333,136
Accounts receivable	14,301	85,761	100,062	176,272
Delinquent tax receivable	33,677	--	33,677	53,514
Assessment receivable	49,071	236	49,307	57,755
Due from other funds	--	--	--	165,684
Due from other governmental units	100,688	2,707	103,395	53,122
Loan receivable	18,465	--	18,465	20,770
Inventory	--	521,220	521,220	499,755
Prepaid items	31,987	12,190	44,177	43,100
Land held for resale	105,255	--	105,255	105,255
Capital assets, net of accumulated depreciation	6,699,759	5,418,949	12,118,708	12,130,943
Total Assets	9,148,944	8,653,638	17,802,582	17,639,306
Deferred Outflow of Resources				
Related to Pensions	183,405	--	183,405	--
Total Assets and Deferred Outflow of Resources	\$ 9,332,349	\$ 8,653,638	\$ 17,985,987	\$ 17,639,306
LIABILITIES				
Current liabilities:				
Due to other funds	\$ --	\$ --	\$ --	\$ 165,684
Accounts payable	193,307	158,082	351,389	312,735
Accrued expenses	8,656	103,857	112,513	107,316
Interest payable	92,618	--	92,618	118,090
Net Pension Liability	1,035,132	--	1,035,132	--
Unearned revenue	86,996	236	87,232	115,749
Total Current Liabilities	1,416,709	262,175	1,678,884	819,574
Noncurrent liabilities:				
Due within one year	418,757	240,227	658,984	685,918
Due in more than one year	2,935,531	2,118,837	5,054,368	5,140,075
Total Noncurrent Liabilities	3,354,288	2,359,064	5,713,352	5,825,993
Total Liabilities	4,770,997	2,621,239	7,392,236	6,645,567
Deferred Inflow of Resources				
Related to Pensions	144,383	--	144,383	--
Total Deferred Inflow of Resources	144,383	--	144,383	--
NET POSITION				
Net investment in capital assets	3,345,471	3,059,884	6,405,355	6,304,950
Restricted for:				
Special revenue	69,623	--	69,623	61,744
Capital projects	--	--	--	--
Debt service	778,332	--	778,332	768,201
Unrestricted	223,543	2,972,515	3,196,058	3,858,844
Total Net Position	4,416,969	6,032,399	10,449,368	10,993,739
Total Liabilities and Net Position	\$ 9,332,349	\$ 8,653,638	\$ 17,985,987	\$ 17,639,306

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

City of Milaca, Minnesota
 STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2015

Form A-2

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 397,734	\$ 49,448	\$ --	\$ --
Public safety	863,596	162,412	109,499	--
Public works	294,138	23,309	44,630	--
Culture and recreation	465,372	2,028	93,078	50,000
TIF - EDA	65,707	--	--	--
Miscellaneous	257,791	--	--	--
Debt service	424,972	--	--	--
Interest	119,188	--	--	--
Total Governmental Activities	2,888,498	237,197	247,207	50,000
Business - Type Activities:				
Water	434,367	569,242	--	--
Sewer	337,831	326,721	--	--
Liquor	1,935,113	2,134,294	--	--
Motor Vehicle	152,853	163,465	--	--
Total Business - Type Activities	2,860,164	3,193,722	--	--
Total Primary Government	\$ 5,748,662	\$ 3,430,919	\$ 247,207	\$ 50,000

General Revenues:

- Property taxes
- Interest earnings
- General intergovernmental
- Net transfers
- Sale of assets
- Miscellaneous

Total General Revenues and Transfers

- Changes in Net Position
- Prior Period Adjustment
- Net Position - Beginning
- Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government		Totals	
Governmental Activities	Business-type Activities	2015	2014
\$ (348,286)	\$ --	\$ (348,286)	\$ (368,226)
(591,685)	--	(591,685)	(238,908)
(226,199)	--	(226,199)	(239,959)
(320,266)	--	(320,266)	(209,871)
(65,707)	--	(65,707)	(67,855)
(257,791)	--	(257,791)	(658,193)
(424,972)	--	(424,972)	(139,668)
(119,188)	--	(119,188)	(118,090)
<u>(2,354,094)</u>	<u>--</u>	<u>(2,354,094)</u>	<u>(2,040,770)</u>
--	134,875	134,875	101,767
--	(11,110)	(11,110)	6,109
--	199,181	199,181	194,697
--	10,612	10,612	15,718
<u>--</u>	<u>333,558</u>	<u>333,558</u>	<u>318,291</u>
<u>(2,354,094)</u>	<u>333,558</u>	<u>(2,020,536)</u>	<u>(1,722,479)</u>
1,039,901	--	1,039,901	1,002,245
38,410	20,707	59,117	(13,431)
915,034	--	915,034	844,665
52,230	(52,230)	--	--
--	--	--	--
480,393	--	480,393	195,056
<u>2,525,968</u>	<u>(31,523)</u>	<u>2,494,445</u>	<u>2,028,535</u>
171,874	302,035	473,909	306,056
(1,018,280)			
5,263,375	5,730,364	10,993,739	10,687,683
<u>\$ 4,416,969</u>	<u>\$ 6,032,399</u>	<u>\$ 10,449,368</u>	<u>\$ 10,993,739</u>

City of Milaca, Minnesota
GOVERNMENTAL FUNDS
Balance Sheet
December 31, 2015

	General Fund	Capital Projects Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,231,249	\$ 6,530	\$ 857,962	\$ 2,095,741
Accounts receivable	12,301	--	2,000	14,301
Delinquent taxes	19,878	--	13,799	33,677
Special Assessments:				
Delinquent	1,201	--	1,129	2,330
Deferred	--	--	46,741	46,741
Due from other funds	113,667	--	--	113,667
Due from other governmental units	74,766	--	25,922	100,688
Construction in progress	--	--	--	--
Loan receivable	--	--	18,465	18,465
Prepaid items	31,987	--	--	31,987
Land held for resale	--	--	105,255	105,255
TOTAL ASSETS	\$ 1,485,049	\$ 6,530	\$ 1,071,273	\$ 2,562,852
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ --	\$ --	\$ 113,667	\$ 113,667
Accounts payable	55,762	89,552	47,993	193,307
Loan payable	--	--	--	--
Accrued expenses	8,656	--	--	8,656
Due to other governments	--	--	--	--
Deferred revenue	25,328	--	61,668	86,996
Total Liabilities	89,746	89,552	223,328	402,626
Fund Balances:				
Nonspendable	31,987	--	--	31,987
Restricted	--	(83,022)	847,945	764,923
Committed	--	--	--	--
Assigned	353,152	--	--	353,152
Unassigned	1,010,164	--	--	1,010,164
Total Fund Balances	1,395,303	(83,022)	847,945	2,160,226
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,485,049	\$ 6,530	\$ 1,071,273	\$ 2,562,852

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

City of Milaca, Minnesota
 RECONCILIATION OF NET POSITION IN THE GOVERNMENT-WIDE
 FINANCIAL STATEMENTS AND FUND BALANCES IN THE
 FUND BASIS FINANCIAL STATEMENTS
 December 31, 2015
 (With Comparative Amounts for December 31, 2014)

	2015	2014
Amounts reported for governmental activities in the statement of net position are different because:		
Total governmental fund balances	\$ 2,160,226	\$ 2,100,931
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	13,275,444	12,451,288
Less: accumulated depreciation	(6,575,685)	(6,035,764)
Construction in Progress to Capital Assets	--	--
	6,699,759	6,415,524
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred within governmental funds.		
Special assessments	--	20
Pension Related items for GASB #68		
Deferred outflow of resources	183,405	--
Deferred inflow of resources	(144,383)	--
Net Pension liability	(1,035,132)	--
	(996,110)	--
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Accrued interest	(92,618)	(118,090)
Bonds payable	(3,354,288)	(3,135,010)
	(3,446,906)	(3,253,100)
Net position of governmental activities	\$ 4,416,969	\$ 5,263,375

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

City of Milaca, Minnesota
GOVERNMENTAL FUNDS

Form B-3

Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2015

	General Fund	Capital Projects Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
General property taxes	\$ 564,099	\$ --	\$ 390,982	\$ 955,081
Tax increments	--	--	73,008	73,008
Special assessments	1,159	--	10,653	11,812
Intergovernmental	915,034	--	--	915,034
Licenses and permits	25,661	--	--	25,661
Charges for services	237,197	--	--	237,197
Fines and forfeits	8,458	--	--	8,458
Interest earned	12,017	2,634	23,568	38,219
Refunds and reimb.	25,249	--	--	25,249
Grants	102,832	--	--	102,832
Miscellaneous	143,822	50,000	71,681	265,503
Total Revenues	2,035,528	52,634	569,892	2,658,054
Expenditures:				
General government	362,324	--	--	362,324
Public safety	921,116	--	--	921,116
Public works	210,477	--	--	210,477
Culture and rec.	388,433	610,656	--	999,089
Miscellaneous	61,686	--	28,543	90,229
Debt service:				--
Principal	--	--	373,000	373,000
Interest	--	--	104,047	104,047
TIF	--	--	65,707	65,707
Total Expenditures	1,944,036	610,656	571,297	3,125,989
Excess (Deficit) of Revenues over (under) Expenditures	91,492	(558,022)	(1,405)	(467,935)
Other Financing Sources (Uses):				
Transfers in	38,500	--	148,807	187,307
Transfers out	(5,645)	--	(129,432)	(135,077)
Proceeds from bond sale	--	475,000	--	475,000
Total Other Financing Sources (Uses)	32,855	475,000	19,375	527,230
Net Changes	124,347	(83,022)	17,970	59,295
Fund Balances-Beginning	1,270,956	--	829,975	2,100,931
Fund Balances-Ending	\$ 1,395,303	\$ (83,022)	\$ 847,945	\$ 2,160,226

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND NET POSITION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

(With Comparative Amounts for December 31, 2014)

	<u>2015</u>	<u>2014</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances - total governmental funds	\$ 59,295	\$ 54,775
Governmental funds report 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, net of deletions	824,156	574,279
Depreciation expense	<u>(539,921)</u>	<u>(426,706)</u>
	<u>284,235</u>	<u>147,573</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(120,552)</u>	<u>(128,608)</u>
Pension Related items for GASB #68		
Pension expense	20,370	--
Prior period adjustment - pension liability	(1,018,280)	--
State Aid (Pensions)	1,800	--
	<u>(996,110)</u>	<u>--</u>
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principle is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Proceeds from bond sales	(475,000)	(190,000)
Compensated absences	4,170	(1,102)
Changes in accrued interest, net	(25,472)	(15,141)
Principal retirement on long-term debt, net	423,028	406,132
	<u>(73,274)</u>	<u>199,889</u>
Change in net position of governmental activities	<u>\$ (846,406)</u>	<u>\$ 273,629</u>

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

City of Milaca, Minnesota
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 508,048	\$ 508,048	\$ 564,099	\$ 56,051
Special assessments	--	--	1,159	1,159
Intergovernmental revenues	838,852	891,352	915,034	23,682
Licenses and permits	25,900	25,900	25,661	(239)
Charges for services	277,670	267,670	237,197	(30,473)
Fines and forfeits	9,500	9,500	8,458	(1,042)
Interest earned	2,000	2,000	12,017	10,017
Refunds and reimbursements	6,000	7,540	25,249	17,709
Grants	--	97,800	102,832	5,032
Miscellaneous	53,500	119,100	143,822	24,722
Total Revenues	<u>1,721,470</u>	<u>1,928,910</u>	<u>2,035,528</u>	<u>106,618</u>
Expenditures:				
General Government -				
Mayor and council	14,050	12,250	9,483	2,767
City administration	29,550	29,550	27,972	1,578
Elections	--	--	--	--
City treasurer	30,250	30,250	28,861	1,389
City attorney/assessing services	66,200	66,200	63,676	2,524
City hall	256,675	256,675	232,332	24,343
Total General Government	<u>396,725</u>	<u>394,925</u>	<u>362,324</u>	<u>32,601</u>
Public Safety -				
Building inspection	57,905	57,905	57,471	434
Police protection	534,135	534,135	495,862	38,273
Fire protection	181,470	369,013	367,783	1,230
Total Public Safety	<u>773,510</u>	<u>961,053</u>	<u>921,116</u>	<u>39,937</u>
Public Works -				
Street	223,975	223,975	210,477	13,498
Total Public Works	<u>223,975</u>	<u>223,975</u>	<u>210,477</u>	<u>13,498</u>

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

City of Milaca, Minnesota
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures: (Continued)				
Culture and Recreation -				
Parks and playgrounds	\$ 181,200	\$ 281,685	\$ 260,895	\$ 20,790
Airport	87,850	117,480	94,981	22,499
Recreation/Educational/Social	46,625	42,775	32,557	10,218
Total Culture and Recreation	<u>315,675</u>	<u>441,940</u>	<u>388,433</u>	<u>53,507</u>
Miscellaneous				
Miscellaneous	40,215	64,155	61,686	2,469
Total Miscellaneous	<u>40,215</u>	<u>64,155</u>	<u>61,686</u>	<u>2,469</u>
Total Expenditures	<u>1,750,100</u>	<u>2,086,048</u>	<u>1,944,036</u>	<u>142,012</u>
Excess (Deficit) of Revenues over (under) Expenditures	(28,630)	(157,138)	91,492	248,630
Other Financing Sources (Uses):				
Transfers in	37,500	38,500	38,500	--
Transfers out	(5,345)	(5,645)	(5,645)	--
Total Other Financing Sources (Uses)	<u>32,155</u>	<u>32,855</u>	<u>32,855</u>	<u>--</u>
Net Changes in Fund Balances	3,525	(124,283)	124,347	248,630
Fund Balances - Beginning	<u>1,270,956</u>	<u>1,270,956</u>	<u>1,270,956</u>	<u>--</u>
Fund Balances - Ending	<u>\$ 1,274,481</u>	<u>\$ 1,146,673</u>	<u>\$ 1,395,303</u>	<u>\$ 248,630</u>

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

City of Milaca, Minnesota
 PROPRIETARY FUNDS
 Statement of Net Position
 December 31, 2015

	Business - Type Activities - Enterprise Funds				Totals
	Water Utility Fund	Sewer Utility Fund	Liquor Fund	Motor Vehicle Fund	
ASSETS					
Current Assets:					
Cash and investments	\$ 638,003	\$ 940,748	\$ 915,952	\$ 117,872	\$ 2,612,575
Accounts receivable	42,658	24,939	18,164	--	85,761
Assessments receivable	236	--	--	--	236
Due from other governments	--	2,707	--	--	2,707
Inventory	--	--	521,220	--	521,220
Prepaid Items	3,255	3,431	5,185	319	12,190
Total Current Assets	<u>684,152</u>	<u>971,825</u>	<u>1,460,521</u>	<u>118,191</u>	<u>3,234,689</u>
Noncurrent Assets:					
Capital Assets -					
Non-depreciable	--	--	54,788	--	54,788
Depreciable	6,146,153	3,024,985	1,094,931	--	10,266,069
Less: accumulated depreciation	<u>(2,621,555)</u>	<u>(1,779,512)</u>	<u>(500,841)</u>	<u>--</u>	<u>(4,901,908)</u>
Total Capital Assets (net of accumulated depreciation) and Noncurrent Assets	<u>3,524,598</u>	<u>1,245,473</u>	<u>648,878</u>	<u>--</u>	<u>5,418,949</u>
TOTAL ASSETS	<u><u>\$ 4,208,750</u></u>	<u><u>\$ 2,217,298</u></u>	<u><u>\$ 2,109,399</u></u>	<u><u>\$ 118,191</u></u>	<u><u>\$ 8,653,638</u></u>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 6,802	\$ 3,396	\$ 147,652	\$ 232	\$ 158,082
Accrued expenses	43,460	19,213	29,719	11,465	103,857
Due to other funds	--	--	--	--	--
Unearned revenues	236	--	--	--	236
Total Current Liabilities	<u>50,498</u>	<u>22,609</u>	<u>177,371</u>	<u>11,697</u>	<u>262,175</u>
Noncurrent Liabilities:					
Bonds payable	<u>1,834,000</u>	<u>185,000</u>	<u>340,064</u>	<u>--</u>	<u>2,359,064</u>
Total Liabilities	<u><u>\$ 1,884,498</u></u>	<u><u>\$ 207,609</u></u>	<u><u>\$ 517,435</u></u>	<u><u>\$ 11,697</u></u>	<u><u>\$ 2,621,239</u></u>
NET POSITION					
Net investment in capital assets	\$ 1,690,598	\$ 1,060,473	\$ 308,813	\$ --	\$ 3,059,884
Unrestricted	<u>633,654</u>	<u>949,216</u>	<u>1,283,151</u>	<u>106,494</u>	<u>2,972,515</u>
Total Net Position	<u><u>\$ 2,324,252</u></u>	<u><u>\$ 2,009,689</u></u>	<u><u>\$ 1,591,964</u></u>	<u><u>\$ 106,494</u></u>	<u><u>\$ 6,032,399</u></u>

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

City of Milaca, Minnesota
PROPRIETARY FUNDS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended December 31, 2015

	Business - Type Activities - Enterprise Funds				Totals
	Water Utility Fund	Sewer Utility Fund	Liquor Fund	Motor Vehicle Fund	
Operating Revenues:					
Sales and charges for services	\$ 522,095	\$ 326,721	\$ 2,133,678	\$ 161,107	\$ 3,143,601
Less: Cost of Sales	--	--	(1,566,470)	--	(1,566,470)
Other income	47,147	--	616	2,358	50,121
Total Operating Revenues	<u>569,242</u>	<u>326,721</u>	<u>567,824</u>	<u>163,465</u>	<u>1,627,252</u>
Operating Expenses:					
Operations and maintenance	248,490	223,394	313,029	152,853	937,766
Depreciation	162,873	109,199	37,862	--	309,934
Total Operating Expenses	<u>411,363</u>	<u>332,593</u>	<u>350,891</u>	<u>152,853</u>	<u>1,247,700</u>
Operating Income (Loss)	<u>157,879</u>	<u>(5,872)</u>	<u>216,933</u>	<u>10,612</u>	<u>379,552</u>
Nonoperating Revenues (Expenses):					
Interest expense	(23,004)	(5,238)	(17,752)	--	(45,994)
Interest earned	6,599	10,010	3,975	123	20,707
Refunds and reimbursements	--	--	--	--	--
Total Nonoperating Revenues (Expenses)	<u>(16,405)</u>	<u>4,772</u>	<u>(13,777)</u>	<u>123</u>	<u>(25,287)</u>
Income Before Transfers	141,474	(1,100)	203,156	10,735	354,265
Transfers Out	--	--	(52,230)	--	(52,230)
Changes in Net Position	141,474	(1,100)	150,926	10,735	302,035
Total Net Position - Beginning	<u>2,182,778</u>	<u>2,010,789</u>	<u>1,441,038</u>	<u>95,759</u>	<u>5,730,364</u>
Total Net Position - Ending	<u>\$ 2,324,252</u>	<u>\$ 2,009,689</u>	<u>\$ 1,591,964</u>	<u>\$ 106,494</u>	<u>6,032,399</u>

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

City of Milaca, Minnesota
 PROPRIETARY FUNDS
 Statement of Cash Flows
 For the Year Ended December 31, 2015

	Business - Type Activities - Enterprise Funds				Totals
	Water Utility Fund	Sewer Utility Fund	Liquor Fund	Motor Vehicle Fund	
Cash Flows from Operating Activities:					
Receipts from customers	\$ 649,670	\$ 325,128	\$ 2,135,881	\$ 161,107	\$ 3,271,786
Payments to suppliers	(131,790)	(76,691)	(1,745,429)	(17,786)	(1,971,696)
Payments to employees	(139,991)	(144,262)	(206,169)	(131,702)	(622,124)
Net Cash Provided (Used) by Operating Activities	<u>377,889</u>	<u>104,175</u>	<u>184,283</u>	<u>11,619</u>	<u>677,966</u>
Cash Flows from Noncapital Financing Activities:					
Transfers to other funds	--	--	(52,230)	--	(52,230)
Total Cash Flows Provided (Used) by Noncapital Financing Activities	<u>--</u>	<u>--</u>	<u>(52,230)</u>	<u>--</u>	<u>(52,230)</u>
Cash Flows from Capital and Related Financing Activities:					
Principal bond payments	(259,000)	(25,000)	(47,918)	--	(331,918)
Interest expense	(23,004)	(5,238)	(17,752)	--	(45,994)
(Purchases) of capital assets	(13,462)	--	--	--	(13,462)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(295,466)</u>	<u>(30,238)</u>	<u>(65,670)</u>	<u>--</u>	<u>(391,374)</u>
Cash Flows from Investing Activities:					
Interest earned	6,599	10,010	3,975	123	20,707
Net Cash Provided (Used) by Investing Activities	<u>6,599</u>	<u>10,010</u>	<u>3,975</u>	<u>123</u>	<u>20,584</u>
Net Increase (Decrease) in Cash	89,022	83,947	70,358	11,742	255,069
Cash at Beginning of Year	<u>548,981</u>	<u>856,801</u>	<u>845,594</u>	<u>106,130</u>	<u>2,357,506</u>
Cash at End of Year	<u>\$ 638,003</u>	<u>\$ 940,748</u>	<u>\$ 915,952</u>	<u>\$ 117,872</u>	<u>\$ 2,612,575</u>

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

City of Milaca, Minnesota
 PROPRIETARY FUNDS
 Statement of Cash Flows
 For the Year Ended December 31, 2015

	<u>Business - Type Activities - Enterprise Funds</u>				<u>Totals</u>
	<u>Water Utility Fund</u>	<u>Sewer Utility Fund</u>	<u>Liquor Fund</u>	<u>Motor Vehicle Fund</u>	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ 157,879	\$ (5,872)	\$ 216,933	\$ 10,612	\$ 379,552
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	162,873	109,199	37,862	--	309,934
Changes in Net Position and Liabilities:					
(Increase) decrease in accounts receivable	80,428	1,593	(2,203)	--	79,818
(Increase) decrease in due from	--	(1,622)	--	--	(1,622)
(Increase) decrease in inventory	--	--	(21,465)	--	(21,465)
(Increase) decrease in prepaid expenses	(5)	(91)	(190)	(25)	(311)
(Increase) decrease in assessments/taxes	1,232	--	--	--	1,232
Increase (decrease) in accounts payable	(22,469)	1,293	(7,102)	8,802	(19,476)
Increase (decrease) in accrued expenses	(817)	(325)	3,534	(7,770)	(5,378)
Increase (decrease) in due to other funds	--	--	(43,086)	--	(43,086)
Increase (decrease) in deferred revenue	(1,232)	--	--	--	(1,232)
Total Adjustments	<u>220,010</u>	<u>110,047</u>	<u>(32,650)</u>	<u>1,007</u>	<u>297,407</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 377,889</u>	<u>\$ 104,175</u>	<u>\$ 184,283</u>	<u>\$ 11,619</u>	<u>\$ 677,966</u>

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

City of Milaca, Minnesota
STATEMENT OF FIDUCIARY NET ASSETS
December 31, 2015

	<u>Agency Funds</u>
ASSETS	
Cash and Investments	<u>\$ 110,304</u>
 LIABILITIES	
Accounts Payable	<u>\$ 110,304</u>

City of Milaca
Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Milaca, Minnesota have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard - setting body for establishing governmental accounting and financial reporting principles.

The more significant accounting policies follow:

A. Reporting Entity

The City of Milaca is a statutory city operating under chapter 412 of Minnesota Statutes and under a number of other statutes that apply to cities. The accompanying financial statements present the City's primary government and component unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

Blended Component Unit. The Economic Development Authority (EDA) serves all the citizens of the government and is governed by a board comprised of the governments elected council. The council approves and controls all financing of the Authority. City personnel handle all financial and fiscal matters. No separate audited financial statements are issued.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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.

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Property taxes, licenses and permits, 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.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund and always reports as a major fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Individual governmental funds and all enterprise funds are reported in separate columns as major funds based on these criteria:

- a: Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all fund of that category or type (than is, total governmental or total enterprise funds).
- b: Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) are reported as a major fund.

The City reports the following major proprietary funds:

1. The *liquor fund* accounts for the operation of the City liquor store.
2. The *water utility fund* accounts for the operation of the City owned water utility system.
3. The *sewer utility fund* accounts for the operations of the City owned water reclamation system.
4. The *motor vehicle fund* accounts for operations of the City's motor vehicle operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Auditing Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. 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 needed. The City has implemented GASB 54 Fund Balance Policy as explained in a later footnote.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and investments

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund.

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

1. Deposits and investments (Continued)

Investments are stated at fair value, based upon quoted market prices at the reporting date.

Cash and cash equivalents for purposes of the general purpose financial statements includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available for appropriation and are not expendable available financial resources.

Property tax levies are set by the City Council in December in each year and are certified to Mille Lacs County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1, of the following year, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectible, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of January, June, and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. The net amount of delinquent taxes receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

Special assessment:

Special assessment receivable - delinquent represent the past year of uncollected special assessments and is offset by deferred revenues. Special assessment receivable - deferred are those assessments for property owner improvements made by the City. These assessments are made at various times by City resolution and are collectible over period ranging from one to fifteen years and bear interest at 6% to 8% annually. These are also offset by deferred revenues.

City of Milaca, Minnesota
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

2. Receivables and payables (Continued)

Accounts receivable:

Based on historical collection experience, no allowance has been made for doubtful accounts. Accounts that are determined to be uncollectible are expensed during the period.

3. Inventory

Inventory of the municipal liquor fund is valued at average cost.

4. Prepaid items

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

5. Capital assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

Property, plant, and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

Assets	Useful Life in Years
Land	Not depreciated
Buildings	30-40
Building Improvements	15
Vehicles	5
Equipment	5-7
Fire Trucks	20

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1: SUMMARY OF ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

6. Compensated absences benefits

Vacation pay is recorded as expenditure when earned in both the governmental and proprietary fund types.

Sick pay can be accumulated up to a maximum of 125 days. Unused sick leave in excess of 125 days is paid annually at 50% of the employees current rate.

7. 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 assets. Bond premiums and discounts, as well as issuance costs, are immaterial and are expensed in the year of bond

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

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

E. 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/deduction 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 dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

1. Formal budgetary information is employed as a management control device during the year for the general fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary control for capital projects is accomplished through the use of project controls.
2. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
3. Annual budgets are adopted for the general and special revenue funds.
4. The level of control is at the fund level.
5. All budgeted appropriations lapse at the end of the year.
6. The City's administrator may approve transfers between allowances within a funds budget and the extent of such revision is not limited except that the fund's total budget may not be exceeded.

The City Council may increase the budget for expenditures of any fund as the city does not have any ordinances restricting increases. Budgets as adopted, however, are not automatically changed unless it has been demonstrated that a specific need exists and adequate funds are available.

7. The amounts shown in the financial statements as "Budgeted" represent the original budgeted amounts and all revisions during the year.

City of Milaca, Minnesota
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS

The City has adopted GASB No. 40.

A. Deposits

In accordance with Minnesota Statutes, the City maintains deposits with national banks, insured state banks or thrift institutions as authorized by the City Council.

The following is a summary of the City's cash and investment portfolio:

<u>Cash and Investment Type</u>	<u>December 31, 2015</u> <u>Amount</u>
US Government Obligation/Securities/Notes/Bonds	\$ 100,115
Certificates of deposit	2,327,829
Money market mutual funds in State securities	1,619,919
Cash and deposits	770,757
 Total Cash and Investments	 \$ 4,818,620

Minnesota Statutes requires that all City deposits be insured, secured by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments described in Section B. 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.

City of Milaca, Minnesota
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

B. Investments

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Share of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

Cash and Investment balances as of December 31, 2015, are as follows:

	Fair Value
4M Fund	\$ 1,619,919
Morgan Stanley	2,427,943
First National Bank of Milaca	768,708
Petty Cash	2,050
	\$ 4,818,620

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

B. Investments (Continued)

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the government and City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

Short-term, highly liquid debt instruments (Including commercial paper, banker's acceptances and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Minnesota Statutes requires all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Cash and investments at December, 31, 2015 were comprised of deposits, brokered certificates of deposit, and money markets.

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy in place to address custodial credit risk for deposits, stating all deposits must be in compliance with Minnesota Statutes 118A.

Interest Rate Risk: The City's investment policy does not include specific limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates. It does suggest avoiding a concentration of investments within a specific maturity sector or range.

Credit Risk: The City's investment policy refers to *Minnesota Statutes* 118A. The Statute limits investments in the top two ratings issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk: The City's investment policy places no specific limit on the amount the City may invest in any one issuer. It does state the City should avoid over investing in specific investments or issuers.

Custodial Credit Risk - Investments: For an investment, this is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's investment policy states all investments shall be held in third party safekeeping by an institution designated as custodial agent.

C. Receivable

Receivables as of year end for the government's individual major funds and nonmajor funds in the aggregate are as follows:

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

C. Receivable (Continued)

	<u>Accounts Receivable</u>	<u>Taxes- Delinquent</u>	<u>Special Assessment</u>	<u>Due From Other Gov'ts</u>	<u>Loan Receivable</u>	<u>Net Total Receivable</u>
Funds:						
General	\$ 12,301	\$ 19,878	\$ 1,201	\$ 74,766	\$ --	\$ 108,146
Water	42,658	--	236	--	--	42,894
Sewer	24,939	--	--	2,707	--	27,646
Liquor	18,164	--	--	--	--	18,164
Nonmajor	2,000	13,799	47,870	25,922	18,465	108,056
Totals	<u>\$ 100,062</u>	<u>\$ 33,677</u>	<u>\$ 49,307</u>	<u>\$ 103,395</u>	<u>\$ 18,465</u>	<u>\$ 304,906</u>

D. Capital Assets

Capital assets activity for the year ended December 31, 2015, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land and improvements	\$ 84,840	\$ --	\$ --	\$ 84,840
Total capital assets, not being depreciated	<u>84,840</u>	<u>--</u>	<u>--</u>	<u>84,840</u>
Capital assets, being depreciated:				
Buildings and improvements	4,689,385	350,000	11,439	5,027,946
Other improvements	5,234,976	322,268	--	5,557,244
Equipment and fixtures	2,442,087	163,327	--	2,605,414
Total capital assets, being depreciated	<u>12,366,448</u>	<u>835,595</u>	<u>11,439</u>	<u>13,190,604</u>
Less: accumulated depreciation for:				
Buildings and improvements	1,428,683	171,434	11,439	1,588,678
Infrastructure	2,878,375	252,010	--	3,130,385
Equipment and fixtures	1,728,706	127,916	--	1,856,622
Total accumulated depreciation	<u>6,035,764</u>	<u>551,360</u>	<u>11,439</u>	<u>6,575,685</u>
Total capital assets, being depreciated, net	<u>6,330,684</u>	<u>284,235</u>	<u>--</u>	<u>6,614,919</u>
Governmental activities capital assets, net	<u>\$ 6,415,524</u>	<u>\$ 284,235</u>	<u>\$ --</u>	<u>\$ 6,699,759</u>

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

Business - Type Activities	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land and improvements	\$ 54,788	--	\$ --	\$ 54,788
Total capital assets, not being depreciated	<u>54,788</u>	<u>--</u>	<u>--</u>	<u>54,788</u>
Capital assets, being depreciated:				
Buildings, machinery and equipment	10,257,981	13,462	5,374	10,266,069
Total capital assets, being depreciated	<u>10,257,981</u>	<u>13,462</u>	<u>5,374</u>	<u>10,266,069</u>
Less: accumulated depreciation for:				
Buildings, machinery and equipment	4,597,350	309,934	5,374	4,901,910
Total accumulated depreciation	<u>4,597,350</u>	<u>309,934</u>	<u>5,374</u>	<u>4,901,910</u>
Total capital assets being depreciated, net	<u>5,660,631</u>	<u>(296,472)</u>	<u>--</u>	<u>5,364,159</u>
Business - type activities capital assets, net	<u>\$ 5,715,419</u>	<u>\$ (296,472)</u>	<u>\$ --</u>	<u>\$ 5,418,947</u>

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities</u>	
General government	\$ 35,410
Public safety	100,433
Public works	83,661
Culture and recreation	143,924
Streets	187,932
Total depreciation expense - governmental activities	<u>\$ 551,360</u>
<u>Business - Type Activities</u>	
Liquor	\$ 37,862
Sewer	109,199
Water	162,873
Total depreciation expense - business - type activities	<u>\$ 309,934</u>

E. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

F. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2015, is as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General	\$ --	\$ 113,667
Special Revenue	113,667	--
	<u>\$ 113,667</u>	<u>\$ 113,667</u>

Interfund Transfers:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 38,500	\$ 5,645
Special Revenue	600	8,800
Debt Service	148,207	120,632
Enterprise	--	52,230
Totals	<u>\$ 187,307</u>	<u>\$ 187,307</u>

G. Long-Term Debt

General Obligation Bonds:

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years was \$6,705,810.

General obligation bonds are direct obligations and pledge the full-faith and credit of the government. These bonds generally are issued as 15-year bonds with amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	1.00-4.74%	\$ 3,354,288
Business - type activities	1.00-4.76%	2,359,064
Totals		<u>\$ 5,713,352</u>

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-Term Debt (Continued)

General Obligation Bonds: (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities		Business - Type Activities	
	Principal	Interest	Principal	Interest
2016	418,756	94,314	240,227	39,915
2017	413,532	82,757	244,646	35,136
2018	380,000	71,317	249,181	30,159
2019	395,000	60,050	253,840	24,926
2020	421,000	47,704	257,625	19,445
2021-2025	1,136,000	83,702	940,545	39,182
2026-2030	190,000	19,890	173,000	1,851
Totals	<u>\$ 3,354,288</u>	<u>\$ 459,734</u>	<u>\$ 2,359,064</u>	<u>\$ 190,614</u>

The following is a summary of the following changes in long-term debt obligations for the year ended December 31, 2015:

	Beginning Balances	Additions	Reductions	Ending Balances	Due Within One Year
Governmental activities:					
G.O. Improvement Bond 2005	\$ --	\$ --	\$ --	\$ --	\$ --
Public Project Revenue 2006	1,040,000	--	110,000	930,000	115,000
G.O. Refunding Bonds 2009	105,000	--	55,000	50,000	50,000
Equipment Certificate 2009	13,010	--	5,000	8,010	5,000
G.O. Refunding Bond 2010	925,000	--	85,000	840,000	85,000
G. O. Bond 2012	825,000	--	80,000	745,000	85,000
Equipment Certificate 2012	122,000	--	19,000	103,000	19,000
Capital Lease	47,306	--	15,028	32,278	15,757
Note Payable	35,000	--	35,000	--	--
Note Payable	190,000	--	19,000	171,000	19,000
G.O. Park Improvement 2015		475,000	--	475,000	25,000
Totals	<u>\$ 3,302,316</u>	<u>\$ 475,000</u>	<u>\$ 423,028</u>	<u>\$ 3,354,288</u>	<u>\$ 418,757</u>
Business-type activities:					
G.O. Revenue Bonds 2006 (W)	1,958,000	--	154,000	1,804,000	155,000
G.O. Refunding Bonds 2009 (W)	100,000	--	100,000	--	--
G.O. Refunding Bonds 2010 (W)	35,000	--	5,000	30,000	5,000
G.O. Refunding Bonds 2010 (S)	210,000	--	25,000	185,000	30,000
Liquor Store Expansion	387,983	--	47,919	340,064	50,227
Totals	<u>\$ 2,690,983</u>	<u>\$ --</u>	<u>\$ 331,919</u>	<u>\$ 2,359,064</u>	<u>\$ 240,227</u>
General:					
Compensated Absences	\$ 79,865	\$ 51,709	\$ 55,879	\$ 75,695	\$ 58,114
Business-Type:					
Unamortized Bond Costs	(3,373)	--	(1,731)	(1,642)	(1,642)
Compensated Absences	49,488	33,141	30,629	52,000	31,854
Totals	<u>\$ 125,980</u>	<u>\$ 84,850</u>	<u>\$ 84,777</u>	<u>\$ 126,053</u>	<u>\$ 88,326</u>

City of Milaca, Minnesota
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

H. Federal Financial Assistance Programs

During the year ended December 31, 2015, the City incurred less than \$500,000 in federal expenditures. Therefore, the City does not have to comply with the Single Audit requirements issued by the Comptroller General of the United States.

I. Contingencies and Commitments

In connection with the normal conduct of its affairs, the City is involved in various claims or litigations. It is the opinion of the City attorney that the final settlement of these matters will not materially affect the financial statements of the City.

The City participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

J. Risk Management - Claims and Judgments

Significant losses are covered by commercial insurance for all major programs. These programs are life, health, property and liability, workers' compensation, unemployment, and disability. For insured programs there have been no significant reductions in insurance coverage. Settlement amounts, if any, have not exceeded insurance coverage for the current year or the three prior years.

K. Conduit Debt

Conduit debt obligations are certain limited obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued various revenue bonds to provide funding to private-sector entities for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2015, the City's outstanding conduit debt balances consisted of the following:

Conduit Debt:		
	Elim Nursing Home	\$ 3,329,440
	Total	\$ 3,329,440

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

L. Excess of Expenditures over Appropriations

Expenditures exceeded appropriations in certain individual funds for the year ended December 31, 2015, as follows:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Over</u>
Special Revenue Funds:			
EDA Fund	\$ 6,586	\$ --	\$ 6,586
Initiative Foundation	2,671	53	2,618
Youth Safety	181	113	68
Capital Projects Fund:			
Capital Projects	610,656	52,634	558,022
Debt Service Funds:			
Public Projects	156,689	106,329	50,360
G.O. Equipment Certificate	5,345	16	5,329
2012 Equipment Certificate	21,925	90	21,835

M. Defined Benefit Pension Plan - Statewide

1. Public Employees Retirement Association

a. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employers 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 Fund (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

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

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

M. Defined Benefit Pension Plan - Statewide (Continued)

1. Public Employees Retirement Association

b. **Benefits Provided**

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

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

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 2.1% of average salary for each of the first ten years and 1.7% for each remaining year. Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF 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 PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90.

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)
M. Defined Benefit Pension Plan - Statewide (Continued)

1. Public Employees Retirement Association

c. Contributions

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

1. GERS Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2015. The City of Milaca was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated members in calendar year 2015. The City of Milaca's contributions to the GERS for the year ended December 31, 2015, were \$53,260. The City of Milaca's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City of Milaca was required to contribute 16.2% of pay for PEPFF members in calendar year 2015. The City of Milaca's contributions to the PEPFF for the year ended December 31, 2015, were \$50,474. The City of Milaca's contributions were equal to the required contributions as set by state statute.

d. Pension Costs

1. GERS Pension Costs

At December 31, 2015, the City of Milaca reported a liability of \$637,450 for its proportionate share of the GERS's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Milaca's proportion of the net pension liability was based on the City of Milaca's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City of Milaca's proportion share was 0.0123% which was a decrease of 0.011% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City of Milaca recognized pension expense of \$72,052 for its proportionate share of the GERS's pension expense.

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)
M. Defined Benefit Pension Plan - Statewide (Continued)

1. Public Employees Retirement Association

d. Pension Costs (Continued)

At December 31, 2015, the City of Milaca reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ --	\$ 32,138
Change in actuarial assumptions	--	--
Difference between projected and actual investment earnings	60,344	--
Changes in proportion	--	38,754
Contributions paid to PERA subsequent to the measurement date	26,832	--
Total	\$ 87,176	\$ 70,892

\$60,344 reported as deferred outflows of resources related to pensions resulting from the City of Milaca's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows.

Year ended December 31:	Pension Expense Amount
2016	13,609
2017	13,609
2018	13,608
2019	15,958
2020	--
Thereafter	--

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)
M. Defined Benefit Pension Plan - Statewide (Continued)

1. Public Employees Retirement Association

d. Pension Costs (Continued)

2. PEPFF Pension Costs

At December 31, 2015, the City of Milaca reported a liability of \$397,682 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Milaca's proportion of the net pension liability was based on the City of Milaca's contributions received by PERA during the measurement period for employer paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City of Milaca's proportion was 0.035% which was a decrease of 0.001% from its proportion measurement as of June 30, 2014.

For the year ended December 31, 2015, the City of Milaca recognized pension expense of 68,530 for its proportionate share of the PEPFF's pension expense. The City of Milaca also recognized \$(1,800) for year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contribution \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City of Milaca reported its proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ --	\$ 64,491
Change in actuarial assumptions	--	--
Difference between projected and actual investment earnings	69,290	--
Changes in proportion	--	9,000
Contributions paid to PERA subsequent to the measurement date	26,939	--
Total	\$ 96,229	\$ 73,491

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)
M. Defined Benefit Pension Plan - Statewide (Continued)

1. Public Employees Retirement Association

d. Pension Costs (Continued)

\$26,939 reported as deferred outflows of resources related to pensions resulting from the City of Milaca's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	12,101
2017	12,101
2018	12,101
2019	18,372
2020	--
Thereafter	--

e. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial assumption valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases are assumed to be: 1% effective every January 1st, until 2034, then 2.5% for GERF and PEPFF.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The ex[evidence study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for PEPFF was for the period July 1, 2004, though June 30, 2009.

There were no changes in actuarial assumptions in 2015.

City of Milaca, Minnesota
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)
 M. Defined Benefit Pension Plan - Statewide (Continued)

1. Public Employees Retirement Association

e. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9%. 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 which best-estimated 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:

Assets Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

f. **Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

City of Milaca, Minnesota
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)
 M. Defined Benefit Pension Plan - Statewide (Continued)

1. Public Employees Retirement Association

g. Pension Liability Sensitivity

The following table presents the City of Milaca'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 of Milaca's proportionate share of net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City of Milaca's proportionate share of the GERS net pension liability:	\$ 1,002,298	\$ 637,450	\$ 336,142
City of Milaca's proportionate share of the PEPFF net pension liability:	\$ 775,086	\$ 397,682	\$ 85,880

h. Pension Plan Fiduciary Net Position

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

N. Deficit Fund Balances

The following funds had deficit fund balances as of December 31, 2015:

	<u>Amount</u>
Special Revenue	
TIF #1-10 Downtown	(117,524)
Capital Projects	
Capital Project	(83,022)

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4: GASB 54 FUND BALANCE REPORTING

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

- I. The City has adopted a Fund Balance Policy effective for the year ended December 31, 2012. The purpose of this policy is to establish specific guidelines the City of Milaca will use to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

The purpose of this policy is to also establish specific guidelines the City of Pine City will use to classify fund balances into categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

II. Classification of Fund Balance/Procedures

1. **Nonspendable:** This category includes fund balance that cannot be spent because it is either (i) not in spendable form or (ii) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.
2. **Restricted:** Fund balance should be reported as restricted when constraints placed on those resources are either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.
3. **Committed:**
Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.

The City's highest level of decision-making authority (City Council) will annually, or as deemed necessary, commit specific revenue sources for specified purposes by resolution. This formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint, may be determined in the subsequent period.

To remove the constraint on specified use of the committed resources, the City Council shall pass a resolution.

4. **Assigned:** Amounts that are constrained by the government's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General Fund includes amounts that are intended to be used for specific purposes.

The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Administrator and/or City Treasurer.

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4: GASB 54 FUND BALANCE REPORTING (Continued)

5. **Unassigned:** Unassigned fund balance represents the residual classification for the General Fund. It includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

The City will maintain an unrestricted fund balance in the General Fund of an amount not less than 31% of the next year's budgeted expenditures of the General Fund. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

III. Stabilization Arrangements

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

The City will set aside amounts by resolution as deemed necessary that can only be expended when certain specific circumstances exist. The resolution will identify and describe the specific circumstances under which a need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

IV. Monitoring and Reporting

The City Manager and City Treasurer shall annually prepare the status of fund balances in relation to this policy and present them to the City Council in conjunction with the development of the annual budget.

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

When committed, assigned, or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed, 2) assigned, and 3) unassigned.

A negative residual amount may not be reported for restricted, committed, or assigned fund balances in the General Fund.

The provisions of this policy include the provisions of Statement No. 54 of the Governmental Accounting Standards Board (GASB).

City of Milaca, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 PRIOR PERIOD ADJUSTMENT - CHANGE IN ACCOUNTING PRINCIPAL

The beginning net position of the governmental activities has been decreased to reflect a change in accounting principle. The City implemented GASB 68, Accounting and Financial Reporting for Pensions which record the City's proportionate share of the collective net pension liability, deferred inflow of resources and deferred outflow of resources, and pension expense on the City's government-wide financial statements. Beginning governmental activities net position has been restated from \$5,263,375 to \$4,245,095 (a decrease of \$1,018,280). Prior year comparative information does not reflect this change in accounting principle because the cost-sharing multiple-employer defined benefit plans in which the City participates have not provided this information to the City.

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City of Milaca
Milaca, Minnesota
REQUIRED SUPPLEMENTARY INFORMATION OTHER
THAN MANAGEMENT'S DISCUSSION AND
ANALYSIS (UNAUDITED)
December 31, 2015

City of Milaca
Milaca, Minnesota
Required Supplementary Information
Schedule of City's Proportionate Share of Net Pension Liability and City's Contributions
PERA General Employees Retirement Fund
December 31, 2015

Schedule of City's Proportionate Share of Net Pension Liability

Fiscal Year Ending December 31,	Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Assets) (a)	Covered Employee Payroll (b)	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position of the Total Pension Liability
2015	0.0123%	\$ 637,450	\$ 724,130	88.0%	78.7%

Note: This schedule is intended to report ten-year trends. Additional years will be reported when they are available.

Schedule of City's Contributions

Fiscal Year Ending December 31,	Statutory Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Employee Payroll (b/d)
2015	\$ 53,290	\$ 53,290	\$ --	\$ 724,130	7.36%

Note: This schedule is intended to report ten-year trends. Additional years will be reported when they are available.

City of Milaca
Milaca, Minnesota
Required Supplementary Information
Schedule of City's Proportionate Share of Net Pension Liability and City's Contributions
PEPFF Public Employees Police and Fire Fund
December 31, 2015

Schedule of City's Proportionate Share of Net Pension Liability

Fiscal Year Ending December 31,	Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Assets) (a)	Covered Employee Payroll (b)	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position of the Total Pension Liability
2015	0.0350%	\$ 397,682	\$ 311,900	127.5%	78.7%

Note: This schedule is intended to report ten-year trends. Additional years will be reported when they are available.

Schedule of City's Contributions

Fiscal Year Ending December 31,	Statutory Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Employee Payroll (b/d)
2015	\$ 50,474	\$ 50,474	\$ --	\$ 311,900	16.18%

Note: This schedule is intended to report ten-year trends. Additional years will be reported when they are available.

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City of Milaca
Milaca, Minnesota
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES
December 31, 2015

City of Milaca, Minnesota
NONMAJOR GOVERNMENTAL FUNDS
Combining Balance Sheet
December 31, 2015

	Special Revenue Funds			
	EDA Basic	Charitable Gambling	Initiative Foundation	Revolving Loan
ASSETS				
Cash and investments	\$ --	\$ 24,053	\$ 3,601	\$ 34,845
Delinquent taxes receivable	--	--	--	--
Due from other governmental unit	--	--	--	--
Accounts receivable	--	--	--	--
Due from other funds	--	--	--	--
Loan receivable	--	--	--	18,465
Delinquent special assessments	--	--	--	--
Deferred special assessments	--	--	--	--
Construction in progress	--	--	--	--
Prepaid items	--	--	--	--
Land held for resale	105,255	--	--	--
TOTAL ASSETS	\$ 105,255	\$ 24,053	\$ 3,601	\$ 53,310
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	--	743	137	--
Due to other funds	14,736	--	--	--
Loan payable	--	--	--	--
Deferred revenue	--	--	--	--
Total Liabilities	14,736	743	137	--
Fund Balances:				
 Reserved for:				
Special revenue	90,519	23,310	3,464	53,310
Capital projects	--	--	--	--
Debt service	--	--	--	--
Unreserved, undesignated	--	--	--	--
Total Fund Balances	90,519	23,310	3,464	53,310
TOTAL LIABILITIES AND FUND BALANCE	\$ 105,255	\$ 24,053	\$ 3,601	\$ 53,310

Special Revenue Funds

Youth Safety	DWI Forfeiture Fund	REC Fest Fund	TIF #1-10 Downtown	TIF #2-6 Apartments	Special Revenue Totals
\$ 1,125	\$ 649	\$ 8,671	\$ --	\$ 34,619	\$ 107,563
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	18,465
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	105,255
<u>\$ 1,125</u>	<u>\$ 649</u>	<u>\$ 8,671</u>	<u>\$ --</u>	<u>\$ 34,619</u>	<u>\$ 231,283</u>
--	--	--	18,593	28,520	47,993
--	--	--	98,931	--	113,667
--	--	--	--	--	--
--	--	--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>117,524</u>	<u>28,520</u>	<u>161,660</u>
1,125	649	8,671	(117,524)	6,099	69,623
--	--	--	--	--	--
--	--	--	--	--	--
<u>1,125</u>	<u>649</u>	<u>8,671</u>	<u>(117,524)</u>	<u>6,099</u>	<u>69,623</u>
<u>\$ 1,125</u>	<u>\$ 649</u>	<u>\$ 8,671</u>	<u>\$ --</u>	<u>\$ 34,619</u>	<u>\$ 231,283</u>

City of Milaca, Minnesota
NONMAJOR GOVERNMENTAL FUNDS
Combining Balance Sheet
December 31, 2015

	Debt Service			
	Public Project Revenue Bond of 2006	G.O. Refunding Bond 2009	G. O. Equipment Certificate	G.O. Refunding Bond 2010
ASSETS				
Cash and investments	\$ 206,178	\$ 140,102	\$ 492	\$ 138,809
Delinquent taxes receivable	3,325	2,401	--	4,988
Due from other governmental unit	6,108	4,396	--	9,161
Accounts receivable	--	--	--	--
Due from other funds	--	--	--	--
Loan receivable	--	--	--	--
Delinquent special assessments	--	--	--	--
Deferred special assessments	--	--	--	--
Construction in progress	--	--	--	--
Prepaid items	--	--	--	--
Land held for resale	--	--	--	--
TOTAL ASSETS	\$ 215,611	\$ 146,899	\$ 492	\$ 152,958
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	--	--	--	--
Due to other funds	--	--	--	--
Deferred revenue	3,325	2,401	--	4,987
Total Liabilities	3,325	2,401	--	4,987
Fund Balances:				
Reserved for :				
Special revenue	--	--	--	--
Capital projects	--	--	--	--
Debt service	212,286	144,498	492	147,971
Unreserved, undesignated	--	--	--	--
Total Fund Balances	212,286	144,498	492	147,971
TOTAL LIABILITIES AND FUND BALANCE	\$ 215,611	\$ 146,899	\$ 492	\$ 152,958

Debt Service				
G. O. Bonds 2012	G.O. Street Project	2014 Fire Hall Improvement	2012 Equipment Certificate	2015 GO Park Fund
\$ 227,697	\$ --	\$ 9,252	\$ 21,192	\$ 6,677
3,085	--	--	--	--
6,257	--	--	--	--
--	--	2,000	--	--
--	--	--	--	--
--	--	--	--	--
1,129	--	--	--	--
46,741	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>\$ 284,909</u>	<u>\$ --</u>	<u>\$ 11,252</u>	<u>\$ 21,192</u>	<u>\$ 6,677</u>
--	--	--	--	--
--	--	--	--	--
50,955	--	--	--	--
<u>50,955</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
--	--	--	--	--
--	--	--	--	--
233,954	--	11,252	21,192	6,677
--	--	--	--	--
<u>233,954</u>	<u>--</u>	<u>11,252</u>	<u>21,192</u>	<u>6,677</u>
<u>\$ 284,909</u>	<u>\$ --</u>	<u>\$ 11,252</u>	<u>\$ 21,192</u>	<u>\$ 6,677</u>

Debt Service Totals	Nonmajor Governmental Fund Totals
\$ 750,399	\$ 857,962
13,799	13,799
25,922	25,922
2,000	2,000
--	--
--	18,465
1,129	1,129
46,741	46,741
--	--
--	--
--	105,255
<u>\$ 839,990</u>	<u>\$ 1,071,273</u>
\$ --	\$ 47,993
--	113,667
<u>61,668</u>	<u>61,668</u>
<u>61,668</u>	<u>223,328</u>
--	--
--	69,623
778,322	778,322
--	--
<u>778,322</u>	<u>847,945</u>
<u>\$ 839,990</u>	<u>\$ 1,071,273</u>

City of Milaca, Minnesota
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2015

	Special Revenues Funds			
	EDA Fund	Charitable Gambling	Initiative Foundation	Revolving Loan
Revenues:				
General property taxes	\$ --	\$ --	\$ --	\$ --
Tax increments	--	--	--	--
Special assessments	--	--	--	--
Interest earned	--	271	53	960
Grants and miscellaneous	--	19,003	--	--
Total Revenues	<u>--</u>	<u>19,274</u>	<u>53</u>	<u>960</u>
Expenditures:				
Miscellaneous	6,451	5,622	2,671	--
EDA	--	--	--	--
Capital outlay	--	--	--	--
Debt service:				
Principal	--	--	--	--
Interest	135	--	--	--
Total Expenditures	<u>6,586</u>	<u>5,622</u>	<u>2,671</u>	<u>--</u>
Excess (Deficit) of Revenues over (under) Expenditures	(6,586)	13,652	(2,618)	960
Other Financing Sources (Uses):				
Transfers in	--	--	--	--
Transfers out	--	(7,500)	(300)	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>(7,500)</u>	<u>(300)</u>	<u>--</u>
Net Changes in Fund Balances	(6,586)	6,152	(2,918)	960
Fund Balances - Beginning	<u>97,105</u>	<u>17,158</u>	<u>6,382</u>	<u>52,350</u>
Fund Balances - Ending	<u>\$ 90,519</u>	<u>\$ 23,310</u>	<u>\$ 3,464</u>	<u>\$ 53,310</u>

Special Revenue					
Youth Safety	DWI Forfeiture Fund	REC Fest Fund	TIF #1-10 Downtown	TIF #2-6 Apartments	Special Revenue Totals
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	41,319	31,689	73,008
--	--	--	--	--	--
13	7	83	--	176	1,563
100	--	18,028	--	--	37,131
<u>113</u>	<u>7</u>	<u>18,111</u>	<u>41,319</u>	<u>31,865</u>	<u>111,702</u>
181	--	13,516	51	51	28,543
--	--	--	37,187	28,520	65,707
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	1,268	--	1,403
<u>181</u>	<u>--</u>	<u>13,516</u>	<u>38,506</u>	<u>28,571</u>	<u>95,653</u>
(68)	7	4,595	2,813	3,294	16,049
--	--	600	--	--	600
--	--	(1,000)	--	--	(8,800)
<u>--</u>	<u>--</u>	<u>(400)</u>	<u>--</u>	<u>--</u>	<u>(8,200)</u>
(68)	7	4,195	2,813	3,294	7,849
<u>1,193</u>	<u>642</u>	<u>4,476</u>	<u>(120,337)</u>	<u>2,805</u>	<u>61,774</u>
<u>\$ 1,125</u>	<u>\$ 649</u>	<u>\$ 8,671</u>	<u>\$ (117,524)</u>	<u>\$ 6,099</u>	<u>\$ 69,623</u>

City of Milaca, Minnesota
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2015

	Debt Service Funds			
	Public Project Revenue Bonds of 2006	G.O. Refunding Bond 2009	G. O. Equipment Certificate	G.O. Refunding Bond 2010
Revenues:				
General property taxes	\$ 94,210	\$ 68,024	\$ --	\$ 141,351
Tax increments	--	--	--	--
Special assessments	--	--	--	69
Interest earned	1,769	1,100	16	641
Miscellaneous	10,350	--	--	18
Total Revenues	<u>106,329</u>	<u>69,124</u>	<u>16</u>	<u>142,079</u>
Expenditures:				
Miscellaneous	--	--	--	--
TIF - EDA	--	--	--	--
Capital outlay	--	--	--	--
Debt service:				
Principal	110,000	55,000	5,000	85,000
Interest and other charges	46,689	2,672	345	23,277
Total Expenditures	<u>156,689</u>	<u>57,672</u>	<u>5,345</u>	<u>108,277</u>
Excess (Deficit) of Revenues over (under) Expenditures	(50,360)	11,452	(5,329)	33,802
Other Financing Sources (Uses):				
Transfers in	--	--	5,345	--
Transfers out	--	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>5,345</u>	<u>--</u>
Net Changes in Fund Balances	(50,360)	11,452	16	33,802
Fund Balances - Beginning	<u>262,646</u>	<u>133,046</u>	<u>476</u>	<u>114,169</u>
Fund Balances - Ending	<u>\$ 212,286</u>	<u>\$ 144,498</u>	<u>\$ 492</u>	<u>\$ 147,971</u>

Debt service				
G. O. Bonds 2012	G.O. Street Project	2014 Fire Hall Improvement	2012 Equipment Certificate	2015 GO Park Fund
\$ 87,397	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
10,584	--	--	--	--
1,904	--	27	90	16,458
182	--	24,000	--	--
<u>100,067</u>	<u>--</u>	<u>24,027</u>	<u>90</u>	<u>16,458</u>
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
80,000	--	19,000	19,000	--
13,155	--	3,800	2,925	9,781
<u>93,155</u>	<u>--</u>	<u>22,800</u>	<u>21,925</u>	<u>9,781</u>
6,912	--	1,227	(21,835)	6,677
120,632	--	--	22,230	--
--	(120,632)	--	--	--
<u>120,632</u>	<u>(120,632)</u>	<u>--</u>	<u>22,230</u>	<u>--</u>
127,544	(120,632)	1,227	395	6,677
106,410	120,632	10,025	20,797	--
<u>\$ 233,954</u>	<u>\$ --</u>	<u>\$ 11,252</u>	<u>\$ 21,192</u>	<u>\$ 6,677</u>

Debt Service Totals	Nonmajor Governmental Fund Totals
\$ 390,982	\$ 390,982
--	73,008
10,653	10,653
22,005	23,568
34,550	71,681
<u>458,190</u>	<u>569,892</u>
--	28,543
--	65,707
--	--
373,000	373,000
102,644	104,047
<u>475,644</u>	<u>571,297</u>
(17,454)	(1,405)
148,207	148,807
(120,632)	(129,432)
<u>27,575</u>	<u>19,375</u>
10,121	17,970
<u>768,201</u>	<u>829,975</u>
<u>\$ 778,322</u>	<u>\$ 847,945</u>

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City of Milaca
Milaca, Minnesota
SUPPLEMENTARY INFORMATION
December 31, 2015

City of Milaca
 \$1,670,000. Public Project Revenue -Library Bonds of 2006 - Fund 303
 December 31, 2015

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2016	\$ 115,000	\$ 22,041	\$ 137,041
8/1/2016	--	19,316	19,316
2/1/2017	120,000	19,316	139,316
8/1/2017	--	16,472	16,472
2/1/2018	125,000	16,472	141,472
8/1/2018	--	13,509	13,509
2/1/2019	130,000	13,509	143,509
8/1/2019	--	10,428	10,428
2/1/2020	140,000	10,428	150,428
8/1/2020	--	7,110	7,110
2/1/2021	145,000	7,110	152,110
8/1/2021	--	3,674	3,674
2/1/2022	155,000	3,674	158,674
Balance	<u>\$ 930,000</u>	<u>\$ 163,056</u>	<u>\$ 1,093,056</u>

City of Milaca
 \$995,000 GO Refunding Bonds of 2009 - Fund 380 & Fund 602
 December 31, 2015

Date	Principal	Interest	Total
2/1/2016	\$ 50,000	\$ 800	\$ 50,800
	\$ 50,000	\$ 800	\$ 50,800

City of Milaca
\$30,100 Equipment Certificate, Series 2009A - Fund 381
December 31, 2015

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
3/1/2016	\$ 3,000	\$ 120	\$ 3,120
9/1/2016	2,000	75	2,075
3/1/2017	3,010	45	3,055
	<u>\$ 8,010</u>	<u>\$ 240</u>	<u>\$ 8,250</u>

City of Milaca
 \$138,800 GO Equipment Certificate, Series 2012A - Fund 384
 December 31, 2015

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2016	\$ 19,000	\$ 1,339	\$ 20,339
8/1/2016	--	1,092	1,092
2/1/2017	20,000	1,092	21,092
8/1/2017	--	832	832
2/1/2018	21,000	832	21,832
8/1/2018	--	559	559
2/1/2019	21,000	559	21,559
8/1/2019	--	286	286
2/1/2020	22,000	286	22,286
	<u>\$ 103,000</u>	<u>\$ 6,877</u>	<u>\$ 109,877</u>

City of Milaca
 \$1,585,000 GO Bonds , Series 2010A - Funds #382 - #602 - #603
 December 31, 2015

<u>Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
2/1/2016	\$ 120,000	2.000%	\$ 13,773	\$ 133,773
8/1/2016	--		12,573	12,573
2/1/2017	165,000	2.000%	12,573	177,573
8/1/2017	--		10,923	10,923
2/1/2018	140,000	2.350%	10,923	150,923
8/1/2018	--		9,278	9,278
2/1/2019	145,000	2.650%	9,278	154,278
8/1/2019	--		7,356	7,356
2/1/2020	150,000	2.900%	7,356	157,356
8/1/2020	--		5,181	5,181
2/1/2021	160,000	3.000%	5,181	165,181
8/1/2021	--		2,781	2,781
2/1/2022	125,000	3.150%	2,781	127,781
8/1/2022	--		813	813
2/1/2023	50,000	3.250%	813	50,813
	<u>\$ 1,055,000</u>		<u>\$ 111,580</u>	<u>\$ 1,166,580</u>

City of Milaca
 \$845,000 GO Refunding Bonds, Series 2012A - Fund 383
 December 31, 2015

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Rate</u>	<u>Total</u>
2/1/2016	\$ 85,000	\$ 6,130	1.000%	\$ 91,130
8/1/2016	--	5,705		5,705
2/1/2017	80,000	5,705	1.250%	85,705
8/1/2017	--	5,205		5,205
2/1/2018	85,000	5,205	1.250%	90,205
8/1/2018	--	4,674		4,674
2/1/2019	90,000	4,674	1.700%	94,674
8/1/2019	--	3,909		3,909
2/1/2020	95,000	3,909	1.700%	98,909
8/1/2020	--	3,101		3,101
2/1/2021	90,000	3,101	1.900%	93,101
8/1/2021	--	2,246		2,246
2/1/2022	95,000	2,246	1.900%	97,246
8/1/2022	--	1,344		1,344
2/1/2023	95,000	1,344	2.150%	96,344
8/1/2023	--	323		323
2/1/2024	30,000	323	2.150%	30,323
	<u>\$ 745,000</u>	<u>\$ 59,143</u>		<u>\$ 804,143</u>

City of Milaca
 \$3,060,114 MN Public Facilities Authority Loan 7/19/ 2006 - Water Fund #602
 December 31, 2015

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/20/2016	\$ --	\$ 9,651	\$ 9,651
8/20/2016	155,000	9,651	164,651
2/20/2017	--	8,822	8,822
8/20/2017	157,000	8,822	165,822
2/20/2018	--	7,982	7,982
8/20/2018	159,000	7,982	166,982
2/20/2019	--	7,132	7,132
8/20/2019	161,000	7,132	168,132
2/20/2020	--	6,270	6,270
8/20/2020	162,000	6,270	168,270
2/20/2021	--	5,404	5,404
8/20/2021	164,000	5,404	169,404
2/20/2022	--	4,526	4,526
8/20/2022	166,000	4,526	170,526
2/20/2023	--	3,638	3,638
8/20/2023	167,000	3,638	170,638
2/20/2024	--	2,745	2,745
8/20/2024	169,000	2,745	171,745
2/20/2025	--	1,840	1,840
8/20/2025	171,000	1,840	172,840
2/20/2026	--	926	926
8/20/2026	173,000	926	173,926
	<u>\$ 1,804,000</u>	<u>\$ 117,871</u>	<u>\$ 1,921,871</u>

City of Milaca
 \$700,000 Liquor Store Expansion Bonds of 2006 - Fund 609
 December 31, 2015

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/7/2016	\$ 24,818	\$ 8,094	\$ 32,912
12/7/2016	25,409	7,503	32,912
6/7/2017	26,013	6,898	32,912
12/7/2017	26,633	6,279	32,912
6/7/2018	27,266	5,645	32,912
12/7/2018	27,915	4,996	32,912
6/7/2019	28,580	4,332	32,912
12/7/2019	29,260	3,652	32,912
6/7/2020	29,956	2,955	32,912
12/7/2020	30,669	2,242	32,912
6/7/2021	31,399	1,512	32,912
12/7/2021	32,146	765	32,912
	<u>\$ 340,065</u>	<u>\$ 54,874</u>	<u>\$ 394,938</u>

City of Milaca
 \$475,000 G.O. Park Improvement Bond of 2015 - Fund 386
 December 31, 2015

Date	Principal	Interest	Total
6/15/2016	\$ --	\$ 6,545	\$ 6,545
12/15/2016	25,000	6,545	31,545
6/15/2017	--	6,295	6,295
12/15/2017	25,000	6,295	31,295
6/15/2018	--	6,045	6,045
12/15/2018	25,000	6,045	31,045
6/15/2019	--	5,795	5,795
12/15/2019	25,000	5,795	30,795
6/15/2020	--	5,545	5,545
12/15/2020	30,000	5,545	35,545
6/15/2021	--	5,245	5,245
12/15/2021	30,000	5,245	35,245
6/15/2022	--	4,855	4,855
12/15/2022	30,000	4,855	34,855
6/15/2023	--	4,465	4,465
12/15/2023	30,000	4,465	34,465
6/15/2024	--	4,075	4,075
12/15/2024	30,000	4,075	34,075
6/15/2025	--	3,685	3,685
12/15/2025	35,000	3,685	38,685
6/15/2026	--	3,230	3,230
12/15/2026	35,000	3,230	38,230
6/15/2027	--	2,635	2,635
12/15/2027	35,000	2,635	37,635
6/15/2028	--	2,040	2,040
12/15/2028	40,000	2,040	42,040
6/15/2029	--	1,360	1,360
12/15/2029	40,000	1,360	41,360
6/15/1930	--	680	680
12/15/1930	40,000	680	40,680
	<u>\$ 475,000</u>	<u>\$ 124,990</u>	<u>\$ 599,990</u>

City of Milaca
 \$78,650 Capital Lease - Mower
 December 31, 2015

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/21/2016	\$ 15,757	\$ 1,566	\$ 17,323
11/21/2017	<u>16,521</u>	<u>801</u>	<u>17,322</u>
	<u><u>\$ 32,278</u></u>	<u><u>\$ 2,367</u></u>	<u><u>\$ 34,645</u></u>

City of Milaca
 \$190,000 Fire Hall Improvement Bond
 December 31, 2015

<u>Date</u>	<u>Principal</u>	<u>Annual Rate</u>	<u>Interest</u>	<u>Total</u>
3/3/2016	\$ 19,000	1%	\$ 1,710	\$ 20,710
3/3/2017	19,000	1%	1,520	20,520
3/3/2018	19,000	1%	1,330	20,330
3/3/2019	19,000	1%	1,140	20,140
3/3/2020	19,000	1%	950	19,950
3/3/2021	19,000	1%	760	19,760
3/3/2022	19,000	1%	570	19,570
3/3/2023	19,000	1%	380	19,380
3/3/2024	19,000	1%	190	19,190
	<u>\$ 171,000</u>		<u>\$ 8,550</u>	<u>\$ 179,550</u>

City of Milaca, Minnesota
 STATEMENT OF CHANGES IN
 AGENCY FUND ASSETS AND LIABILITIES
 Milaca/Braham Joint Powers Agreement
 For the Year Ended December 31, 2015

	<u>12/31/2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2015</u>
ASSETS				
Cash and investments	<u>\$ 83,692</u>	<u>\$ 122,593</u>	<u>\$ 95,981</u>	<u>\$ 110,304</u>
LIABILITIES				
Accounts payable	<u>\$ 134</u>	<u>\$ 447</u>	<u>\$ --</u>	<u>581</u>
FUND BALANCE				<u>\$ 109,723</u>

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ROBERT R. ALTHOFF, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF C.P.A.'S
MINNESOTA SOCIETY OF C.P.A.'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* AND THE MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE

Honorable Mayor and City Council
City of Milaca, 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 government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milaca, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Milaca, Minnesota's basic financial statements, and have issued our report thereon dated March 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Milaca, Minnesota's internal control over financial reporting 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 Milaca, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Milaca, 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Milaca, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the *Minnesota Legal Compliance Audit Guide* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Sec. 6.65.

The *Legal Compliance Audit Guide* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous items. Our study included all of the listed categories. The results of our testing indicate that for the items tested, the City of Milaca, Minnesota complied with material terms and conditions of applicable legal provisions. Further, for the items not tested, based on our audit, the procedures referred to above, nothing came to our attention to indicate that the City of Milaca, Minnesota had not complied with such legal provisions.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.



Althoff & Nordquist, LLC
Pine City, Minnesota
March 29, 2016

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