

CITY OF PRIOR LAKE
SCOTT COUNTY, MINNESOTA

Financial Statements
and Supplemental Information
Year Ended
December 31, 2015

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CITY OF PRIOR LAKE
SCOTT COUNTY, MINNESOTA

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SCOTT COUNTY, MINNESOTA

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INTRODUCTORY SECTION

CITY OF PRIOR LAKE
SCOTT COUNTY, MINNESOTA

Elected and Appointed Officials
As of December 31, 2015

ELECTED

		<u>Term Expires</u>
Ken Hedberg	Mayor	12/31/2016
Richard Keeney	Councilmember	12/31/2016
Michael McGuire	Councilmember	12/31/2018
Monique Morton	Councilmember	12/31/2016
Annette Thompson	Councilmember	12/31/2018

APPOINTED

Frank Boyles	City Manager
Donald Uram	Finance Director
Cathy Erickson	Accounting Manager

FINANCIAL SECTION

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PRINCIPALS

Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management
City of Prior Lake, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Prior Lake, Minnesota (the City) 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 the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As described in Note 1 of the notes to basic financial statements, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, during the year ended December 31, 2015. Our opinion is not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and other information section, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

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

(continued)

Prior Year Comparative Information

We have previously audited the City's 2014 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated May 15, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Standards* in considering the City's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
May 18, 2016

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CITY OF PRIOR LAKE

Management's Discussion and Analysis Fiscal Year Ended December 31, 2015

As the management of the City of Prior Lake, Minnesota (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2015.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$164,076,748 (*net position*). Of this amount, \$15,346,945 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City recorded a change in accounting principle in the current year for reporting the City's participation in the Public Employees Retirement Association (PERA) pension plan and inclusion of the Prior Lake Fire Relief Association's net pension asset on the City's government-wide financial statements. This change reduced beginning net position in the government-wide financial statements by \$5,117,943; of this amount, \$4,181,955, or 81.7 percent, was attributable to governmental activities and \$935,988, or 18.3 percent, was attributable to business-type activities. While the net pension liability will be reported on the City's financial statements, there is no expectation that the City pay off the liability within several budget cycles. Because of that, the City will not need to budget more for pension expenses under these new requirements. It is also important to note that the City's pension contributions will not increase as a result of this accounting change. Contribution rates will continue to be set in Minnesota Statutes based on traditional actuarial funding valuations.
- The City's total net position increased by \$9,612,091 exclusive of the change in accounting principle explained above.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$25,625,224, an increase of \$5,856,590 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$6,041,095, or 46.7 percent, of budgeted 2016 expenditures and transfers out (\$12,945,738). The total fund balance of \$6,124,751 reflects an increase of \$348,104. This is \$581,459 more than the budgeted decrease which was primarily due to increased revenues from a League of Minnesota Cities Insurance Trust (LMCIT) workers' compensation retroactive premium adjustment and property/casualty dividend. Also, the City had lower than budgeted expenditures due to several open positions during the year and less capital outlay than was originally planned for in the Parks Department.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and economic development. The business-type activities of the City include water, sewer, and water quality operations. In 2014, the City transferred the responsibility for operating a transit operation to the Minnesota Valley Transit Authority. The Transit Fund was closed in 2015.

The government-wide financial statements can be found in the financial section following this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains numerous individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, DAG Special Revenue Fund, Debt Service Fund, and Construction Fund, all of which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found in the financial section of this report immediately following the government-wide financial statements.

Proprietary Funds – The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, water quality, and transit operations. The Transit Fund was closed in 2015.

Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for severance compensation. Because these internal service fund activities predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The Internal Service Fund is presented separately in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found in the financial section of this report immediately following the governmental fund statements.

Notes to Basic Financial Statements – The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found following the proprietary fund statements within the financial section of this report.

Supplemental Information – The combining and individual fund statements and schedules referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$164,076,748 at the close of the most recent fiscal year.

The City's investment in capital asset (e.g., land, buildings, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding, totaled 86.5 percent of total net position. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table provides the City's Summary of Net Position:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 34,420,681	\$ 25,821,559	\$ 5,185,565	\$ 7,783,391	\$ 39,606,246	\$ 33,604,950
Capital assets	134,217,973	121,076,263	47,805,809	46,627,184	182,023,782	167,703,447
Total assets	<u>\$ 168,638,654</u>	<u>\$ 146,897,822</u>	<u>\$ 52,991,374</u>	<u>\$ 54,410,575</u>	<u>\$ 221,630,028</u>	<u>\$ 201,308,397</u>
Deferred outflows of resources						
Pension plan deferments	\$ 1,271,046	\$ –	\$ 137,788	\$ –	\$ 1,408,834	\$ –
Liabilities						
Long-term liabilities	\$ 52,654,689	\$ 37,672,990	\$ 1,119,251	\$ 109,172	\$ 53,773,940	\$ 37,782,162
Other liabilities	3,840,708	2,684,991	222,595	1,258,644	4,063,303	3,943,635
Total liabilities	<u>\$ 56,495,397</u>	<u>\$ 40,357,981</u>	<u>\$ 1,341,846</u>	<u>\$ 1,367,816</u>	<u>\$ 57,837,243</u>	<u>\$ 41,725,797</u>
Deferred inflows of resources						
Pension plan deferments	\$ 1,024,683	\$ –	\$ 100,188	\$ –	\$ 1,124,871	\$ –
Net position						
Net investment in capital assets	\$ 94,087,717	\$ 87,153,664	\$ 47,805,809	\$ 46,627,184	\$ 141,893,526	\$ 133,780,848
Restricted	6,836,277	5,195,822	–	–	6,836,277	5,195,822
Unrestricted	11,465,626	14,190,355	3,881,319	6,415,575	15,346,945	20,605,930
Total net position	<u>\$ 112,389,620</u>	<u>\$ 106,539,841</u>	<u>\$ 51,687,128</u>	<u>\$ 53,042,759</u>	<u>\$ 164,076,748</u>	<u>\$ 159,582,600</u>

An additional portion of the City's net position (\$6,836,277, or 4.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$15,346,945, may be used to meet the government's ongoing obligations to citizens and creditors.

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

Total net position increased \$4,494,148 during the current year. A significant factor contributing to the change in net position was the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, which required the City to recognize its long-term obligation for pension benefits as a liability for the first time. This change in accounting principle decreased beginning net position by \$5,117,943.

Table 2
Changes in Net Position
for the Years Ended December 31, 2015 and 2014

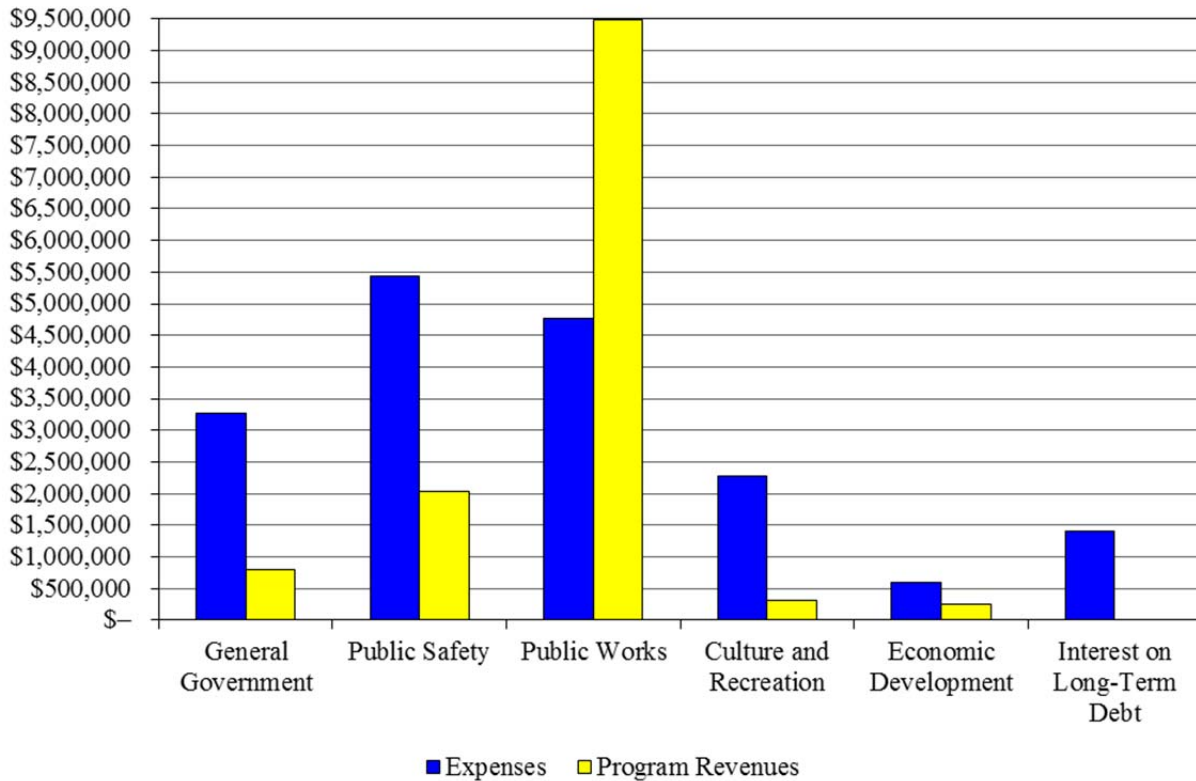
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	\$ 1,908,653	\$ 1,912,949	\$ 6,688,221	\$ 6,479,535	\$ 8,596,874	\$ 8,392,484
Operating grants and contributions	1,505,332	1,354,372	42,402	883,079	1,547,734	2,237,451
Capital grants and contributions	9,448,983	5,917,572	851,824	576,240	10,300,807	6,493,812
General revenues						
Property taxes and tax increments	10,847,377	9,923,506	–	–	10,847,377	9,923,506
Franchise taxes	604,997	594,800	–	–	604,997	594,800
Grants and contributions not restricted to specific programs	13,250	26,557	–	–	13,250	26,557
Interest income	398,549	782,965	127,457	355,290	526,006	1,138,255
Miscellaneous	308,307	204,641	10,021	5,782	318,328	210,423
Total revenues	<u>25,035,448</u>	<u>20,717,362</u>	<u>7,719,925</u>	<u>8,299,926</u>	<u>32,755,373</u>	<u>29,017,288</u>
Expenses						
General government	3,266,222	3,557,910	–	–	3,266,222	3,557,910
Public safety	5,426,539	5,230,546	–	–	5,426,539	5,230,546
Public works	4,775,320	4,227,440	–	–	4,775,320	4,227,440
Culture and recreation	2,271,719	2,229,987	–	–	2,271,719	2,229,987
Economic development	590,532	535,955	–	–	590,532	535,955
Interest on long-term debt	1,410,844	1,185,474	–	–	1,410,844	1,185,474
Water	–	–	2,347,154	2,297,197	2,347,154	2,297,197
Sewer	–	–	2,468,932	2,447,618	2,468,932	2,447,618
Water quality	–	–	560,820	638,570	560,820	638,570
Transit	–	–	–	1,099,899	–	1,099,899
Total expenses	<u>17,741,176</u>	<u>16,967,312</u>	<u>5,376,906</u>	<u>6,483,284</u>	<u>23,118,082</u>	<u>23,450,596</u>
Increase in net position before transfers and special items	7,294,272	3,750,050	2,343,019	1,816,642	9,637,291	5,566,692
Special items						
Transfer of operations	–	–	(25,200)	(1,371,480)	(25,200)	(1,371,480)
Transfers	<u>2,737,462</u>	<u>612,622</u>	<u>(2,737,462)</u>	<u>(612,622)</u>	<u>–</u>	<u>–</u>
Changes in net position	10,031,734	4,362,672	(419,643)	(167,460)	9,612,091	4,195,212
Net position – beginning, as previously reported	106,539,841	102,177,169	53,042,759	53,210,219	159,582,600	155,387,388
Change in accounting principle	(4,181,955)	–	(935,988)	–	(5,117,943)	–
Net position – beginning, restated	<u>102,357,886</u>	<u>102,177,169</u>	<u>52,106,771</u>	<u>53,210,219</u>	<u>154,464,657</u>	<u>155,387,388</u>
Net position – ending	<u>\$ 112,389,620</u>	<u>\$ 106,539,841</u>	<u>\$ 51,687,128</u>	<u>\$ 53,042,759</u>	<u>\$ 164,076,748</u>	<u>\$ 159,582,600</u>

Governmental Activities – Governmental activities increased the City’s net position by \$10,031,734. This is offset by a change in accounting principle of \$4,181,955 for a total net change of \$5,849,779. Key elements of this increase are seen in the table above. The increase is due primarily to the receipt of prepaid special assessments for the 2015 street reconstruction projects, the receipt of \$1 million in Municipal State Aid for the reconstruction of TH 13/150th Street, and developer land/infrastructure contributions. In addition, just over \$2.8 million was transferred in to fund utility infrastructure improvements in various road reconstruction projects, including Credit River Road, Welcome Avenue, and the Highland/Marsh area improvements.

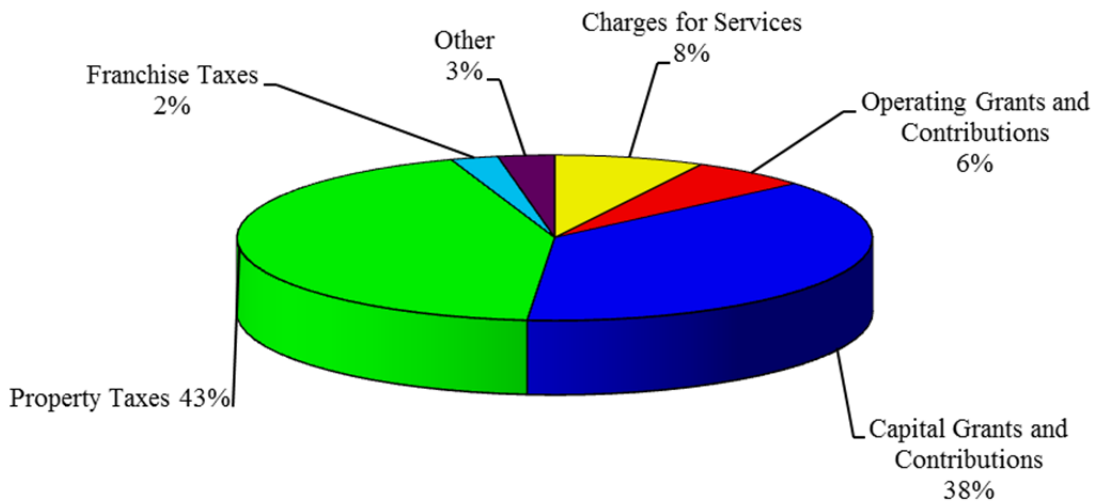
The business-type activities decreased the City's net position in total by \$1,355,631. Of that, \$419,643 is due mostly to the transfers made for utility infrastructure improvements mentioned on the previous page. Interest income was lower due to a more stable investment market while still maintaining positive market value adjustments on the City's investment portfolio.

Net position was also reduced due to a change in accounting principle of \$935,988.

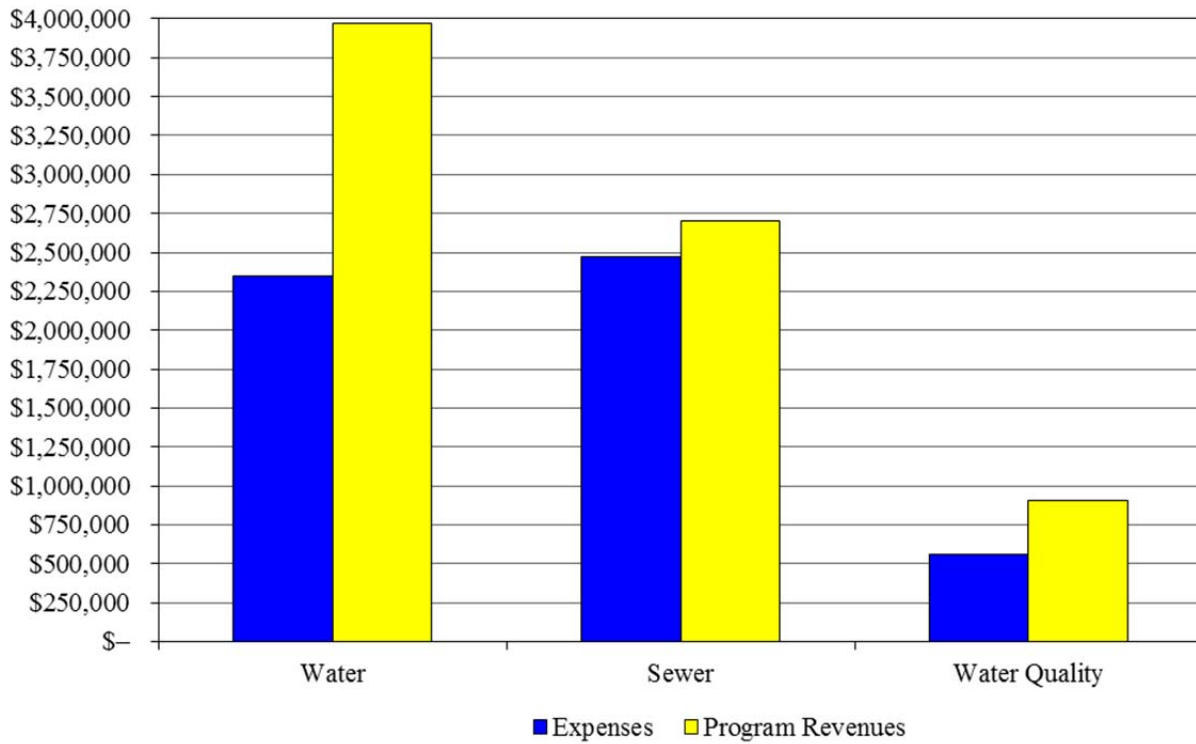
Below are specific graphs that provide comparisons of the governmental activities program revenues and expenses:



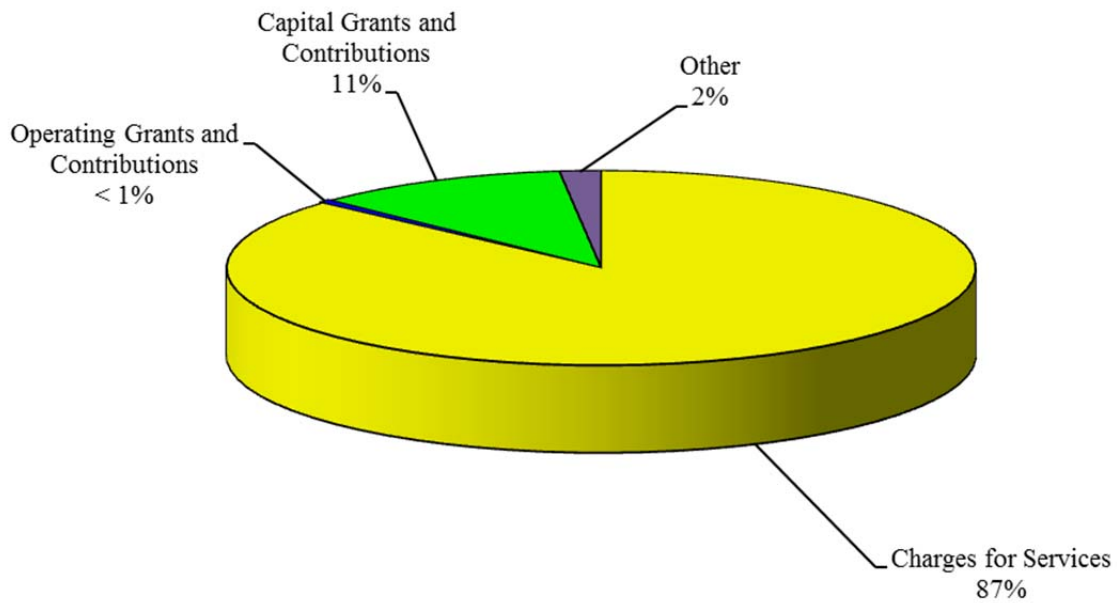
Governmental Activities – Revenue by Program



Business-Type Activities – Below are graphs showing the business-type activities program revenues and expense comparisons.



Business-Type Activities – Revenue by Source



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$25,625,224, an increase of \$5,856,590 in comparison with the prior year.

The General Fund is the chief operating fund of the City. At the end of the recent fiscal year, unassigned fund balance of the General Fund was \$6,041,095, while total fund balance reached \$6,124,751. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents about 46.7 percent of total 2016 General Fund budgeted expenditures and transfers out (\$12,945,738).

Total fund balance for the City's General Fund increased by \$348,104 during 2015. This is \$581,459 more than the budgeted decrease which was due to increased revenues from a LMCIT workers' compensation retroactive premium adjustment and property/causality dividend. Also, the City had lower than budgeted expenditures due to several open positions during the year and less capital outlay than was originally planned for in the Parks Department. Approximately \$200,000 of project expenditures will be carried over to 2016.

The DAG Special Revenue Fund balance increased \$62,368. Charges for services increased \$47,525 and exceeded capital outlay in 2015, which caused the increase in fund balance.

The Debt Service Fund balance increased by \$6,016,064. This is largely due to the issuance of the refunding portion of the 2015A General Obligation Improvement Bonds. The City manages cash flow in all debt service funds and ensures adequate resources exist to fund future obligations.

The Construction Fund balance increased by \$2,888,325. This increase is mainly due to the issuance of the new money portion of the 2015A General Obligation Improvement Bonds. Offsetting this increase was a significant increase in capital outlay related to various projects underway during the year.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$37,515 over budget in 2015 due primarily to an insurance dividend that was not expected in the budget. The number of building permits came in 11 percent below budget. This resulted in a reduction in revenues associated with building permit fees causing licenses and permits to be \$55,281 lower than budget.

Actual expenditures were \$537,214 less than budget in 2015. The largest variances from budget were in general government and public works being under budget by \$132,705 and \$134,289, respectively. This is primarily due to certain staff positions not being filled and park and street improvements not being completed as budgeted.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets – The City’s investment in capital assets for its governmental and business-type activities as of December 31, 2015 amounts to \$182,023,782 (net of accumulated depreciation). This investment in capital assets includes items such as land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 32,221,249	\$ 32,075,809	\$ –	\$ –	\$ 32,221,249	\$ 32,075,809
Easements	36,823,303	33,661,179	75,300	75,300	36,898,603	33,736,479
Construction in progress	15,229,989	6,882,779	327,534	47,281	15,557,523	6,930,060
Land improvements	772,769	780,320	61,516	65,903	834,285	846,223
Machinery and equipment	2,718,747	2,602,981	402,831	438,262	3,121,578	3,041,243
Vehicles	1,331,252	981,972	31,470	15,740	1,362,722	997,712
Infrastructure	45,120,664	44,091,223	46,907,158	45,984,698	92,027,822	90,075,921
Total	<u>\$ 134,217,973</u>	<u>\$ 121,076,263</u>	<u>\$ 47,805,809</u>	<u>\$ 46,627,184</u>	<u>\$ 182,023,782</u>	<u>\$ 167,703,447</u>

Additional information on the City’s capital assets can be found in Note 3 of the notes to basic financial statements.

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of \$43,020,000. This amount comprises debt backed by the full faith and credit of the City. The City’s total debt increased during the current fiscal year due to the issuance of the 2015A and 2015B General Obligation Improvement Bonds. Additionally, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This GASB Statement requires an employer to recognize a liability for its share of the pension liability provided through the pension plan. This net pension liability for the City is \$6,453,193. (See Note 1.Y. Change in Accounting Principle for further information.)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
G.O. bonds	\$ 13,775,000	\$ 15,290,000	\$ –	\$ –	\$ 13,775,000	\$ 15,290,000
G.O. special assessment bonds	16,370,000	10,595,000	–	–	16,370,000	10,595,000
G.O. tax increment bonds	225,000	245,000	–	–	225,000	245,000
G.O. revenue bonds	12,650,000	7,510,000	–	–	12,650,000	7,510,000
Premium (discount) on bonds payable	495,558	292,599	–	–	495,558	292,599
Energy loan payable	2,574,450	2,667,924	–	–	2,574,450	2,667,924
Compensated absences payable	881,375	929,153	113,169	109,172	994,544	1,038,325
Net OPEB obligation	236,195	143,314	–	–	236,195	143,314
Net pension liability – GERS and PEPFF	5,447,111	–	1,006,082	–	6,453,193	–
Total	\$ 52,654,689	\$ 37,672,990	\$ 1,119,251	\$ 109,172	\$ 53,773,940	\$ 37,782,162

The City’s statutory debt limit is equal to 3 percent of estimated taxable market value of property located within the City. The taxable market value totals \$2,620,934,100, which calculates to a debt margin of \$78,628,023. Debt financed partially or entirely by special assessments, tax increments, and other revenue sources is not applied against the City’s debt limit, nor is debt financed by proprietary fund revenues. Currently, the City has \$13,775,000 of general obligation debt outstanding, leaving a debt margin of \$64,853,023.

Additional information on the City’s long-term debt can be found in Note 5 of the notes to basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

- The City adopted a general operating budget of \$12,945,738, expenditures and other financing uses, for fiscal 2016, an increase of \$381,793, or 3.0 percent, from the 2015 original budget.
- Continued staged development of land with the 2,000 acres annexed in 2004 from Spring Lake Township will provide the majority of the City’s anticipated market value growth over the course of the next 10–15 years.

Financial Management Policies

The City has set a goal to establish “Financial Performance Standards” to measure the financial health of the City. These standards serve multiple purposes:

- To serve as best practice measures to strengthen the City’s financial position and maximize the return of the taxpayer dollar.
- To communicate the fiscal performance and condition of the City to residents in a consistent manner.
- To facilitate the setting of policy and financial direction by the City Council with resident input.

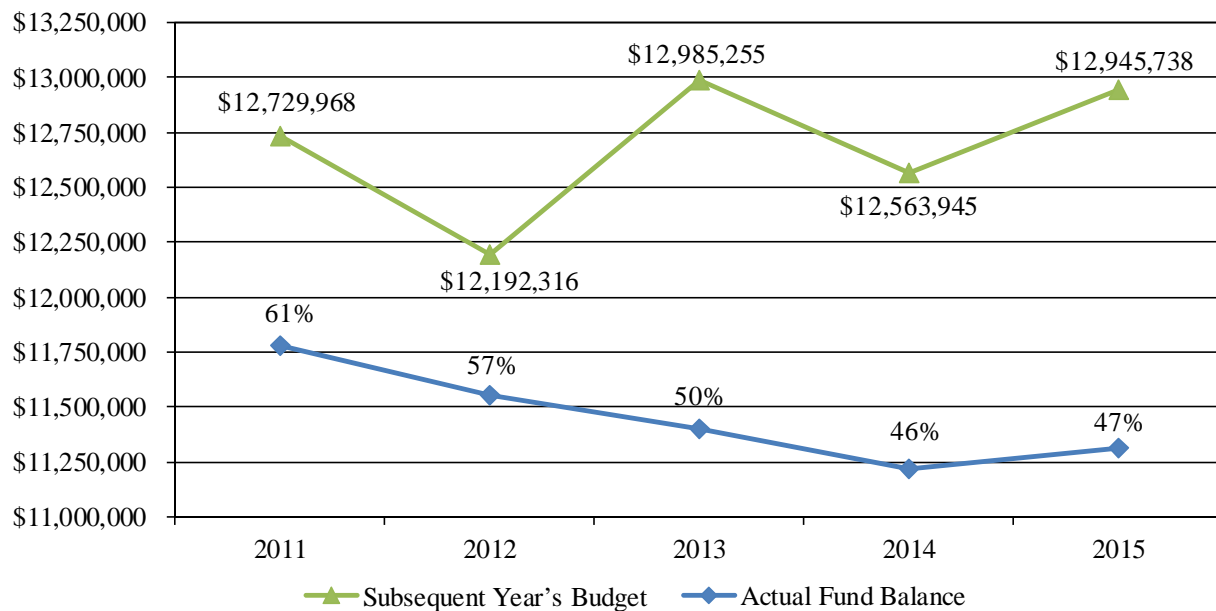
Objective 1: Aa2 Bond Rating

Maintain or improve current Aa2 Bond Rating – Strong credit rating by Moody’s Investors Service (Moody’s), provides low cost financing for the City’s general obligation bonds. In April 2010, Moody’s recalibrated the City’s bond rating to the global rating scale and, therefore, changed the City’s bond rating from Aa3 to an Aa2. The Aa2 bond rating was reaffirmed with the 2015 bond issuances:

2011	Aa2
2012	Aa2
2013	Aa2
2014	Aa2
2015	Aa2

Objective 2: General Fund Reserve Balance

Maintain a 40 to 50 Percent General Fund Reserve Balance – The Office of the State Auditor recommended a reserve balance to provide adequate cash flow, offset revenue shortfalls, and insurance for unforeseen catastrophic events. The City Council adopted a revision to the Comprehensive Financial Management Policy which established a fund balance policy regarding the minimum unrestricted fund balance for the General Fund. The policy established that the City will strive to maintain an unrestricted General Fund balance (which includes committed, assigned, and unassigned classifications) within a range from 40 to 50 percent of the projected expenditures for the subsequent year.



Objective 3: Property Taxes

Maintain or Improve Property Tax Rank when compared to a broader list of metro area cities. The favorable tax rate provides stimulus for growth of residential and commercial property tax base. This data reflects the tax capacity rate, which is based on the levies approved by the City Council to fund general services, such as police, fire, street maintenance, parks, recreation, finance, and general administration as well as the Economic Development Authority. The tables do not reflect the market value rate, which is a tax based on market referenda approved by the City's voters to finance the construction of two fire stations and improvements to the City's parks and library.

Average City Tax Capacity Rate

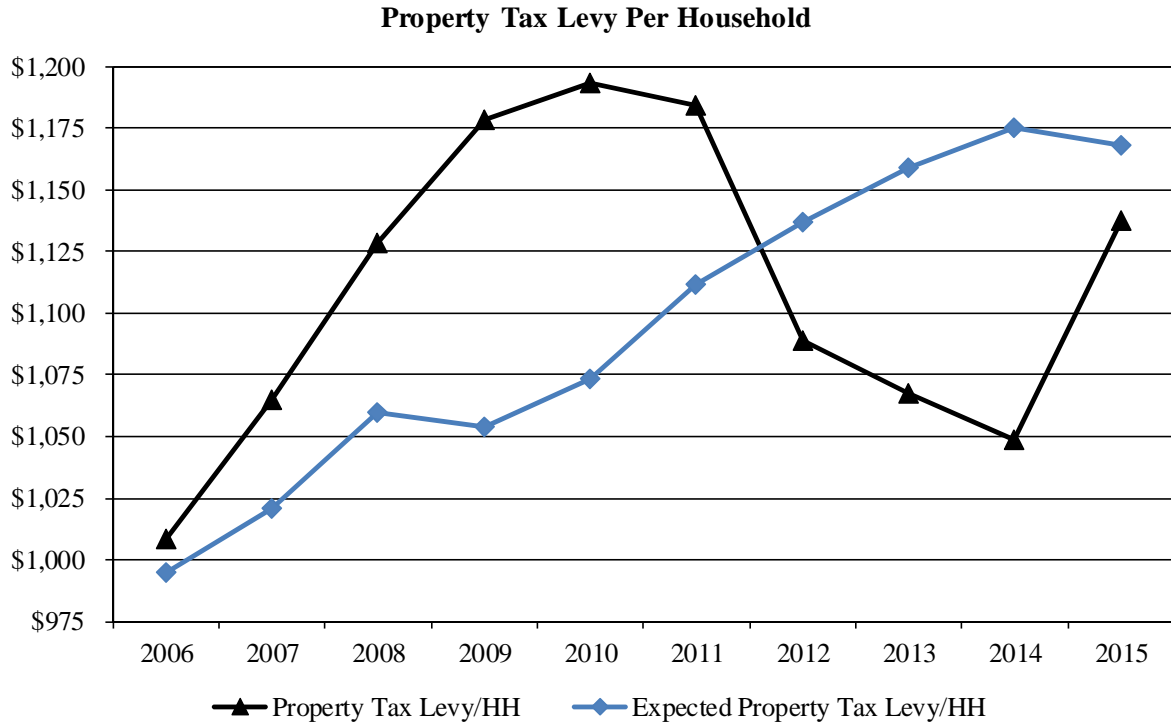
	<u>Metro 10,000–24,999</u>	<u>Seven-County Metro Area</u>	<u>City of Prior Lake</u>
2011	37.73	40.03	30.71
2012	43.27	43.45	29.74
2013	46.05	46.14	31.89
2014	48.80	46.00	30.69
2015	46.90	43.40	31.96

Source: League of Minnesota
Cities and Scott County
**Average Prior Lake
EDA Tax Capacity Rate**

2011	–
2012	–
2013	0.62
2014	0.55
2015	0.55

Objective 4: Property Taxes/Household

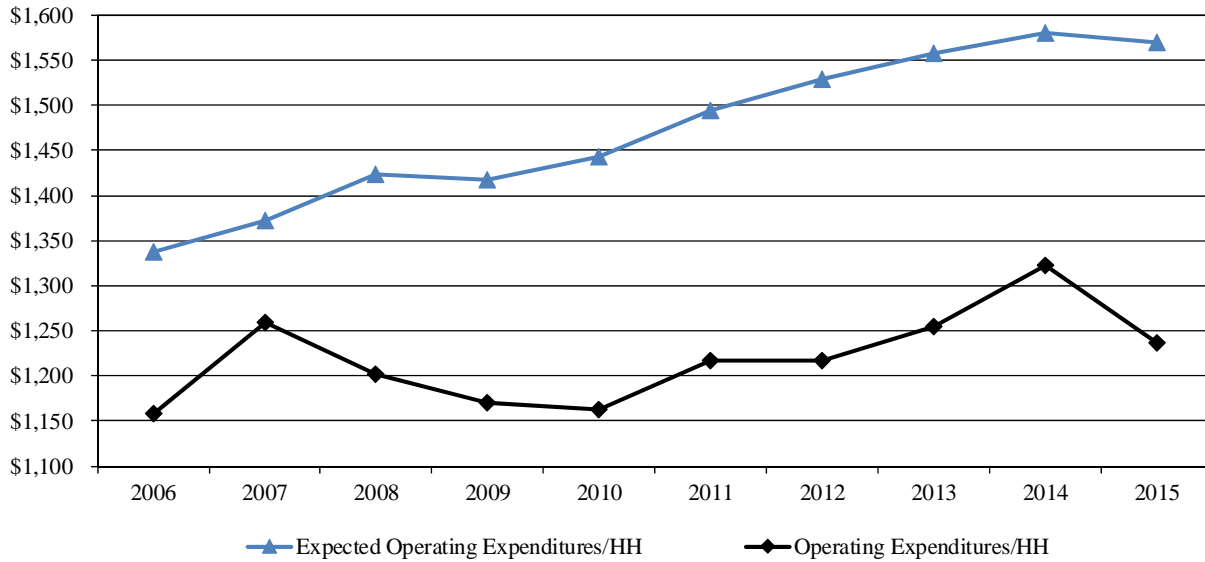
Maintain a level of property taxes on a per household basis which takes into account the cost of inflation and community growth. The goal is to have a tax levy per household that is at or below the rate of inflation over time. This chart reflects community growth and the cost of inflation using the Minneapolis-St. Paul consumer price index (CPI).



Objective 5: General Fund Expenditures/Household

Maintain a level of General Fund operational expenditures on a per household basis which takes into account the cost of inflation and community growth. The goal is to maintain General Fund operating expenditures per household at or below the rate of inflation over time. This chart reflects community growth and the cost of inflation using the Minneapolis-St. Paul CPI.

General Fund Total Operating Expenditures Per Household



REQUESTS FOR INFORMATION

These financial statements are designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the City's Finance Director at the City of Prior Lake, 4646 Dakota Street Southeast, Prior Lake, MN 55372-1714.

BASIC FINANCIAL STATEMENTS

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CITY OF PRIOR LAKE

Statement of Net Position
as of December 31, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	\$ 22,871,311	\$ 4,930,223	\$ 27,801,534
Receivables			
Delinquent taxes	139,676	-	139,676
Accounts	349,713	190,510	540,223
Special assessments	3,576,521	39,054	3,615,575
Due from other governmental agencies	443,356	25,778	469,134
Prepaid items	9,150	-	9,150
Restricted assets – temporarily restricted			
Cash and investments held in escrow	6,103,066	-	6,103,066
Net pension asset	927,888	-	927,888
Capital assets not being depreciated	84,274,541	402,834	84,677,375
Capital assets net of accumulated depreciation	49,943,432	47,402,975	97,346,407
Total assets	168,638,654	52,991,374	221,630,028
Deferred outflows of resources			
Pension plan deferments – GERS and PEPFF	1,042,046	137,788	1,179,834
Pension plan deferments – fire relief	229,000	-	229,000
Total deferred outflows of resources	1,271,046	137,788	1,408,834
Total assets and deferred outflows of resources	\$ 169,909,700	\$ 53,129,162	\$ 223,038,862
Liabilities			
Accounts and contracts payable	\$ 1,517,937	\$ 109,471	\$ 1,627,408
Accrued salaries and employee benefits payable	315,241	47,298	362,539
Due to other governmental agencies	1,014,698	62,826	1,077,524
Deposits payable	888,433	3,000	891,433
Accrued interest payable	66,354	-	66,354
Unearned revenue	38,045	-	38,045
Long-term liabilities			
Due within one year	4,112,299	42,513	4,154,812
Due in more than one year	48,542,390	1,076,738	49,619,128
Total liabilities	56,495,397	1,341,846	57,837,243
Deferred inflows of resources			
Pension plan deferments – GERS and PEPFF	776,105	100,188	876,293
Pension plan deferments – fire relief	248,578	-	248,578
Total deferred inflows of resources	1,024,683	100,188	1,124,871
Net position			
Net investment in capital assets	94,087,717	47,805,809	141,893,526
Restricted for debt service	5,222,765	-	5,222,765
Restricted for other purposes	1,613,512	-	1,613,512
Unrestricted	11,465,626	3,881,319	15,346,945
Total net position	112,389,620	51,687,128	164,076,748
Total liabilities, deferred inflows of resources, and net position	\$ 169,909,700	\$ 53,129,162	\$ 223,038,862

See notes to basic financial statements

CITY OF PRIOR LAKE

Statement of Activities
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 3,266,222	\$ 712,236	\$ 78,801	\$ -
Public safety	5,426,539	748,740	1,172,572	101,097
Public works	4,775,320	-	236,794	9,246,021
Culture and recreation	2,271,719	211,183	-	101,865
Economic development	590,532	236,494	17,165	-
Interest on long-term debt	1,410,844	-	-	-
Total governmental activities	<u>17,741,176</u>	<u>1,908,653</u>	<u>1,505,332</u>	<u>9,448,983</u>
Business-type activities				
Water	2,347,154	3,390,052	-	579,873
Sewer	2,468,932	2,432,925	-	271,951
Water quality	560,820	865,244	42,402	-
Total business-type activities	<u>5,376,906</u>	<u>6,688,221</u>	<u>42,402</u>	<u>851,824</u>
Total	<u>\$ 23,118,082</u>	<u>\$ 8,596,874</u>	<u>\$ 1,547,734</u>	<u>\$ 10,300,807</u>

General revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Franchise taxes

Tax increments

Grants and contributions not restricted to specific programs

Interest income

Miscellaneous

Transfers

Special item – transfer of operations

Total general revenues, transfers, and special items

Change in net position

Net position – beginning, as previously reported

Change in accounting principle

Net position – beginning, restated

Net position – ending

See notes to basic financial statements

Net (Expense) Revenues and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,475,185)	\$ —	\$ (2,475,185)
(3,404,130)	—	(3,404,130)
4,707,495	—	4,707,495
(1,958,671)	—	(1,958,671)
(336,873)	—	(336,873)
(1,410,844)	—	(1,410,844)
<u>(4,878,208)</u>	<u>—</u>	<u>(4,878,208)</u>
—	1,622,771	1,622,771
—	235,944	235,944
—	346,826	346,826
<u>—</u>	<u>2,205,541</u>	<u>2,205,541</u>
(4,878,208)	2,205,541	(2,672,667)
8,499,322	—	8,499,322
1,876,204	—	1,876,204
604,997	—	604,997
471,851	—	471,851
13,250	—	13,250
398,549	127,457	526,006
308,307	10,021	318,328
2,737,462	(2,737,462)	—
—	(25,200)	(25,200)
<u>14,909,942</u>	<u>(2,625,184)</u>	<u>12,284,758</u>
10,031,734	(419,643)	9,612,091
106,539,841	53,042,759	159,582,600
(4,181,955)	(935,988)	(5,117,943)
<u>102,357,886</u>	<u>52,106,771</u>	<u>154,464,657</u>
<u>\$ 112,389,620</u>	<u>\$ 51,687,128</u>	<u>\$ 164,076,748</u>

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FUND FINANCIAL STATEMENTS

CITY OF PRIOR LAKE

Balance Sheet
 Governmental Funds
 as of December 31, 2015

	General	DAG Special Revenue	Debt Service
Assets			
Cash and investments	\$ 6,902,926	\$ 1,208,665	\$ 2,224,123
Cash held in escrow	-	-	5,309,198
Receivables			
Delinquent taxes	136,778	-	-
Accounts	188,784	-	76,527
Special assessments			
Delinquent	504	-	12,480
Deferred	40,517	-	2,779,018
Other (Green Acres)	-	-	718,253
Due from other governmental agencies	133,011	-	22,420
Due from other funds	68,926	-	-
Prepays	9,150	-	-
	<u>\$ 7,480,596</u>	<u>\$ 1,208,665</u>	<u>\$ 11,142,019</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts and contracts payable	\$ 246,111	\$ 41,533	\$ 3,505
Accrued salaries and employee benefits payable	311,106	-	-
Due to other governmental agencies	207,721	-	-
Due to other funds	-	-	68,926
Deposits payable	440,075	423,358	-
Unearned revenue	4,295	-	-
Total liabilities	<u>1,209,308</u>	<u>464,891</u>	<u>72,431</u>
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	136,778	-	-
Unavailable revenue from special assessments	9,759	-	3,509,752
Total deferred inflows of resources	<u>146,537</u>	<u>-</u>	<u>3,509,752</u>
Fund balances			
Nonspendable	9,150	-	-
Restricted	74,506	-	7,561,906
Assigned	-	743,774	-
Unassigned, reported in			
General Fund	6,041,095	-	-
Debt service funds	-	-	(2,070)
Total fund balances	<u>6,124,751</u>	<u>743,774</u>	<u>7,559,836</u>
	<u>\$ 7,480,596</u>	<u>\$ 1,208,665</u>	<u>\$ 11,142,019</u>

See notes to basic financial statements

<u>Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,106,006	\$ 7,023,973	\$ 22,465,693
–	793,868	6,103,066
–	2,898	139,676
5,864	75,877	347,052
–	–	12,984
–	24,346	2,843,881
–	1,403	719,656
280,742	7,183	443,356
–	–	68,926
–	–	9,150
<u>\$ 5,392,612</u>	<u>\$ 7,929,548</u>	<u>\$ 33,153,440</u>
\$ 351,404	\$ 875,384	\$ 1,517,937
–	4,135	315,241
806,438	539	1,014,698
–	–	68,926
–	25,000	888,433
–	33,750	38,045
<u>1,157,842</u>	<u>938,808</u>	<u>3,843,280</u>
–	2,898	139,676
–	25,749	3,545,260
–	28,647	3,684,936
–	–	9,150
661,868	1,170,949	9,469,229
3,572,902	5,791,144	10,107,820
–	–	6,041,095
–	–	(2,070)
<u>4,234,770</u>	<u>6,962,093</u>	<u>25,625,224</u>
<u>\$ 5,392,612</u>	<u>\$ 7,929,548</u>	<u>\$ 33,153,440</u>

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CITY OF PRIOR LAKE

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of December 31, 2015

Total fund balances – governmental funds	\$ 25,625,224
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.	
Cost of capital assets	187,610,876
Less accumulated depreciation	(53,392,903)
Long-term liabilities are included in net position but are excluded from fund balances until due and payable.	
Bond principal payable	(43,020,000)
Energy loan payable	(2,574,450)
Net OPEB obligation	(236,195)
Net pension liability – GERS and PEPFF	(5,447,111)
Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.	(495,558)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(66,354)
Internal service funds are used by management to charge certain costs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.	
Internal service fund net position included in governmental activities	(473,096)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.	
Delinquent property taxes	139,676
Special assessments	3,545,260
Net pension asset	927,888
Deferred outflows – GERS and PEPFF pension plans	1,042,046
Deferred outflows – fire relief pension plan	229,000
Deferred inflows – GERS and PEPFF pension plans	(776,105)
Deferred inflows – fire relief pension plan	(248,578)
Total net position – governmental activities	<u>\$ 112,389,620</u>

See notes to basic financial statements

CITY OF PRIOR LAKE

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2015

	General	DAG Special Revenue	Debt Service
Revenues			
Taxes	\$ 8,087,428	\$ -	\$ 1,876,204
Franchise taxes	604,997	-	-
Special assessments	366	-	1,137,818
Licenses and permits	587,464	-	-
Intergovernmental	1,573,865	-	-
Charges for services	1,048,564	229,056	-
Fines and forfeits	1,390	-	-
Interest on investments	114,970	-	36,987
Miscellaneous	310,225	-	67,119
Total revenues	<u>12,329,269</u>	<u>229,056</u>	<u>3,118,128</u>
Expenditures			
Current			
General government	2,568,472	-	-
Public safety	4,821,150	-	-
Public works	2,078,309	-	-
Culture and recreation	1,600,071	-	-
Economic development	6,213	-	-
Capital outlay	233,355	166,688	-
Debt service			
Principal	-	-	3,203,474
Interest and other	-	-	1,366,442
Total expenditures	<u>11,307,570</u>	<u>166,688</u>	<u>4,569,916</u>
Excess (deficiency) of revenues over expenditures	1,021,699	62,368	(1,451,788)
Other financing sources (uses)			
Debt issued	-	-	169,906
Refunding debt issued	-	-	5,360,000
Premium on debt issued	-	-	143,647
Transfers in	355,520	-	1,794,299
Transfers out	(1,036,245)	-	-
Sale of assets	7,130	-	-
Total other financing sources (uses)	<u>(673,595)</u>	<u>-</u>	<u>7,467,852</u>
Net change in fund balances	348,104	62,368	6,016,064
Fund balances			
Beginning of year	<u>5,776,647</u>	<u>681,406</u>	<u>1,543,772</u>
End of year	<u>\$ 6,124,751</u>	<u>\$ 743,774</u>	<u>\$ 7,559,836</u>

See notes to basic financial statements

<u>Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 880,615	\$ 10,844,247
-	-	604,997
-	2,883	1,141,067
-	-	587,464
1,291,061	17,165	2,882,091
-	1,215,903	2,493,523
-	-	1,390
74,615	150,052	376,624
-	102,652	479,996
<u>1,365,676</u>	<u>2,369,270</u>	<u>19,411,399</u>
-	70,716	2,639,188
-	-	4,821,150
-	-	2,078,309
-	84,098	1,684,169
-	158,570	164,783
9,918,880	3,886,841	14,205,764
-	-	3,203,474
118,242	-	1,484,684
<u>10,037,122</u>	<u>4,200,225</u>	<u>30,281,521</u>
(8,671,446)	(1,830,955)	(10,870,122)
6,960,094	-	7,130,000
-	-	5,360,000
134,961	-	278,608
4,599,792	191,000	6,940,611
(135,076)	(1,824,556)	(2,995,877)
-	6,240	13,370
<u>11,559,771</u>	<u>(1,627,316)</u>	<u>16,726,712</u>
2,888,325	(3,458,271)	5,856,590
<u>1,346,445</u>	<u>10,420,364</u>	<u>19,768,634</u>
<u>\$ 4,234,770</u>	<u>\$ 6,962,093</u>	<u>\$ 25,625,224</u>

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CITY OF PRIOR LAKE

Reconciliation of the Statement of
Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended December 31, 2015

Total net change in fund balances – governmental funds \$ 5,856,590

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

Capital outlays are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.

Capital outlay	13,232,911
Capital contributions	4,579,712
Depreciation expense	(3,469,810)

A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balance.

(32,297)

Capital assets constructed in the governmental funds then transferred to the enterprise funds are shown in the government-wide financial statements but not in the governmental funds statements.

(1,168,806)

The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities. Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.

Principal repayments	3,203,474
Debt issued	(12,490,000)

Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.

Net OPEB obligations	(92,881)
Net pension liability – GERS and PEPFF	(135,516)

Interest on long-term debt is included in the change in net position as it accrues, regardless of when the payment is due. However, it is included in the change in fund balances when due.

(1,809)

Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.

(202,959)

Internal service funds are used by management to charge certain costs to individual funds. The net revenue of certain activities of the internal service funds is reported with governmental activities in the government-wide financial statements.

Internal service fund activity included in governmental activities	(81,826)
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The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.

Delinquent property taxes	4,109
Special assessments	786,231
Net pension asset	107,966
Deferred outflows – GERS and PEPFF pension plans	752,328
Deferred outflows – fire relief pension plan	209,000
Deferred inflows – GERS and PEPFF pension plans	(776,105)
Deferred inflows – fire relief pension plan	(248,578)

Change in net position – governmental activities \$ 10,031,734

See notes to basic financial statements

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CITY OF PRIOR LAKE

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 8,107,223	\$ 8,107,223	\$ 8,087,428	\$ (19,795)
Franchise taxes	595,000	595,000	604,997	9,997
Special assessments	35,000	35,000	366	(34,634)
Licenses and permits	642,745	642,745	587,464	(55,281)
Intergovernmental	1,483,842	1,567,171	1,573,865	6,694
Charges for services	1,049,615	1,049,615	1,048,564	(1,051)
Fines and forfeits	-	-	1,390	1,390
Interest on investments	120,000	120,000	114,970	(5,030)
Miscellaneous	175,000	175,000	310,225	135,225
Total revenues	12,208,425	12,291,754	12,329,269	37,515
Expenditures				
Current				
General government	2,701,177	2,701,177	2,568,472	(132,705)
Public safety				
Police	3,364,784	3,364,784	3,351,784	(13,000)
Fire and rescue	842,855	883,855	880,918	(2,937)
Other	612,725	612,725	588,448	(24,277)
Public works	2,096,259	2,212,598	2,078,309	(134,289)
Culture and recreation	1,665,866	1,679,516	1,600,071	(79,445)
Economic development	-	8,500	6,213	(2,287)
Capital outlay				
General government	31,663	74,558	87,869	13,311
Public safety				
Fire and rescue	41,000	-	-	-
Culture and recreation	171,771	307,071	145,486	(161,585)
Total expenditures	11,528,100	11,844,784	11,307,570	(537,214)
Excess of revenues over expenditures	680,325	446,970	1,021,699	574,729
Other financing sources (uses)				
Transfers in	355,520	355,520	355,520	-
Transfers out	(1,035,845)	(1,035,845)	(1,036,245)	(400)
Sale of assets	-	-	7,130	7,130
Total other financing sources (uses)	(680,325)	(680,325)	(673,595)	6,730
Net change in fund balances	\$ -	\$ (233,355)	348,104	\$ 581,459
Fund balances, January 1			5,776,647	
Fund balances, December 31			\$ 6,124,751	

See notes to basic financial statements

CITY OF PRIOR LAKE

Statements of Net Position
 Proprietary Funds
 as of December 31, 2015 and 2014

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2015	2014	2015	2014
Current assets				
Cash and investments	\$ 2,658,290	\$ 3,370,513	\$ 1,574,261	\$ 2,542,663
Receivables				
Accounts	80,598	62,660	88,770	69,696
Special assessments				
Delinquent	34,504	24,557	–	–
Deferred	4,550	–	–	–
Due from other governmental agencies	4,132	761	143	187
Total current assets	<u>2,782,074</u>	<u>3,458,491</u>	<u>1,663,174</u>	<u>2,612,546</u>
Noncurrent assets				
Capital assets not being depreciated	306,440	75,300	–	–
Depreciable capital assets	36,229,785	35,133,223	24,678,067	24,007,042
Accumulated depreciation	(7,958,390)	(7,322,526)	(6,576,762)	(6,169,688)
Total noncurrent assets	<u>28,577,835</u>	<u>27,885,997</u>	<u>18,101,305</u>	<u>17,837,354</u>
Total assets	31,359,909	31,344,488	19,764,479	20,449,900
Deferred outflows of resources				
Pension plan deferments – GERP	61,239	–	51,033	–
Total assets and deferred outflows of resources	<u>\$ 31,421,148</u>	<u>\$ 31,344,488</u>	<u>\$ 19,815,512</u>	<u>\$ 20,449,900</u>
Current liabilities				
Accounts and contracts payable	\$ 78,474	\$ 35,986	\$ 23,644	\$ 38,579
Accrued salaries and employee benefits payable	19,235	19,820	20,192	18,393
Due to other governmental agencies	25,722	30,090	2,800	4,855
Deposits payable	3,000	3,500	–	–
Current portion of compensated absences payable	21,976	25,886	15,280	25,860
Total current liabilities	<u>148,407</u>	<u>115,282</u>	<u>61,916</u>	<u>87,687</u>
Noncurrent liabilities				
Compensated absences payable	50,633	37,206	16,500	13,401
Net pension liability	447,148	–	372,623	–
Total noncurrent liabilities	<u>497,781</u>	<u>37,206</u>	<u>389,123</u>	<u>13,401</u>
Total liabilities	646,188	152,488	451,039	101,088
Deferred inflows of resources				
Pension plan deferments – GERP	44,528	–	37,107	–
Net position (deficit)				
Net investment in capital assets	28,577,835	27,885,997	18,101,305	17,837,354
Unrestricted	2,152,597	3,306,003	1,226,061	2,511,458
Total net position	<u>30,730,432</u>	<u>31,192,000</u>	<u>19,327,366</u>	<u>20,348,812</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 31,421,148</u>	<u>\$ 31,344,488</u>	<u>\$ 19,815,512</u>	<u>\$ 20,449,900</u>

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2015	2014	2015	2014	2015	2014	
\$ 697,672	\$ 542,333	\$ –	\$ 897,036	\$ 4,930,223	\$ 7,352,545	\$ 405,618
21,142	17,479	–	7,771	190,510	157,606	2,661
–	–	–	–	34,504	24,557	–
–	–	–	–	4,550	–	–
21,503	93,892	–	153,843	25,778	248,683	–
<u>740,317</u>	<u>653,704</u>	<u>–</u>	<u>1,058,650</u>	<u>5,185,565</u>	<u>7,783,391</u>	<u>408,279</u>
96,394	47,281	–	–	402,834	122,581	–
1,330,931	1,065,240	–	–	62,238,783	60,205,505	–
(300,656)	(208,688)	–	–	(14,835,808)	(13,700,902)	–
<u>1,126,669</u>	<u>903,833</u>	<u>–</u>	<u>–</u>	<u>47,805,809</u>	<u>46,627,184</u>	<u>–</u>
1,866,986	1,557,537	–	1,058,650	52,991,374	54,410,575	408,279
25,516	–	–	–	137,788	–	–
<u>\$ 1,892,502</u>	<u>\$ 1,557,537</u>	<u>\$ –</u>	<u>\$ 1,058,650</u>	<u>\$ 53,129,162</u>	<u>\$ 54,410,575</u>	<u>\$ 408,279</u>
\$ 7,353	\$ 22,537	\$ –	\$ 60,364	\$ 109,471	\$ 157,466	\$ –
7,871	7,844	–	–	47,298	46,057	–
34,304	18,390	–	998,286	62,826	1,051,621	–
–	–	–	–	3,000	3,500	–
5,257	6,819	–	–	42,513	58,565	319,934
<u>54,785</u>	<u>55,590</u>	<u>–</u>	<u>1,058,650</u>	<u>265,108</u>	<u>1,317,209</u>	<u>319,934</u>
3,523	–	–	–	70,656	50,607	561,441
186,311	–	–	–	1,006,082	–	–
<u>189,834</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,076,738</u>	<u>50,607</u>	<u>561,441</u>
244,619	55,590	–	1,058,650	1,341,846	1,367,816	881,375
18,553	–	–	–	100,188	–	–
1,126,669	903,833	–	–	47,805,809	46,627,184	–
502,661	598,114	–	–	3,881,319	6,415,575	(473,096)
<u>1,629,330</u>	<u>1,501,947</u>	<u>–</u>	<u>–</u>	<u>51,687,128</u>	<u>53,042,759</u>	<u>(473,096)</u>
<u>\$ 1,892,502</u>	<u>\$ 1,557,537</u>	<u>\$ –</u>	<u>\$ 1,058,650</u>	<u>\$ 53,129,162</u>	<u>\$ 54,410,575</u>	<u>\$ 408,279</u>

CITY OF PRIOR LAKE

Statements of Revenues, Expenses, and Changes in Net Position
 Proprietary Funds
 Years Ended December 31, 2015 and 2014

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2015	2014	2015	2014
Operating revenues				
Sewer charges	\$ –	\$ –	\$ 2,179,696	\$ 2,121,424
Water charges	3,032,176	2,700,496	–	–
Storm water charges	–	–	–	–
Capital facility charges	253,220	247,990	253,229	247,999
Meter sales	104,656	103,196	–	–
Transit charges	–	–	–	–
Charges for services	–	–	–	–
Total operating revenues	<u>3,390,052</u>	<u>3,051,682</u>	<u>2,432,925</u>	<u>2,369,423</u>
Operating expenses				
Personal services	688,995	648,782	605,937	642,637
Supplies	310,183	297,773	87,152	80,541
Repairs and maintenance	116,695	209,720	19,841	31,404
Other services and charges	145,132	119,700	82,554	59,162
Insurance	1,973	1,903	1,973	1,903
Utilities	424,444	381,216	35,746	36,380
Disposal charges	–	–	1,228,533	1,215,970
Miscellaneous	2,601	2,426	121	1,350
Depreciation	657,131	635,677	407,075	378,271
Total operating expenses	<u>2,347,154</u>	<u>2,297,197</u>	<u>2,468,932</u>	<u>2,447,618</u>
Operating income (loss)	1,042,898	754,485	(36,007)	(78,195)
Nonoperating revenues (expenses)				
Intergovernmental	4,550	574	–	–
Interest income	58,274	149,359	34,017	108,826
Miscellaneous	10,021	5,782	–	–
Total nonoperating revenues (expenses)	<u>72,845</u>	<u>155,715</u>	<u>34,017</u>	<u>108,826</u>
Income (loss) before contributions, transfers, and special items	1,115,743	910,200	(1,990)	30,631
Capital contributions from other funds	542,506	520,013	399,075	694,391
Capital contributions to other funds	–	–	–	–
Capital contributions from developers	575,323	319,163	271,951	256,503
Transfers out	(2,279,145)	(1,306,350)	(1,343,820)	(502,086)
Special item – transfer of operations	–	–	–	–
Change in net position	<u>(45,573)</u>	<u>443,026</u>	<u>(674,784)</u>	<u>479,439</u>
Net position – beginning, as previously stated	31,192,000	30,748,974	20,348,812	19,869,373
Change in accounting principle	(415,995)	–	(346,662)	–
Net position – beginning, restated	<u>30,776,005</u>	<u>30,748,974</u>	<u>20,002,150</u>	<u>19,869,373</u>
Net position, December 31	<u>\$ 30,730,432</u>	<u>\$ 31,192,000</u>	<u>\$ 19,327,366</u>	<u>\$ 20,348,812</u>

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2015	2014	2015	2014	2015	2014	
\$ –	\$ –	\$ –	\$ –	\$ 2,179,696	\$ 2,121,424	\$ –
–	–	–	–	3,032,176	2,700,496	–
865,244	843,292	–	–	865,244	843,292	–
–	–	–	–	506,449	495,989	–
–	–	–	–	104,656	103,196	–
–	–	–	215,138	–	215,138	–
–	–	–	–	–	–	24,931
865,244	843,292	–	215,138	6,688,221	6,479,535	24,931
284,200	273,338	–	48,165	1,579,132	1,612,922	117,720
21,617	11,611	–	675	418,952	390,600	–
47,888	64,177	–	2,865	184,424	308,166	–
112,987	228,092	–	1,048,194	340,673	1,455,148	–
–	–	–	–	3,946	3,806	–
–	–	–	–	460,190	417,596	–
–	–	–	–	1,228,533	1,215,970	–
2,160	396	–	–	4,882	4,172	–
91,968	60,956	–	–	1,156,174	1,074,904	–
560,820	638,570	–	1,099,899	5,376,906	6,483,284	117,720
304,424	204,722	–	(884,761)	1,311,315	(3,749)	(92,789)
42,402	162,041	–	721,038	46,952	883,653	–
9,966	21,102	25,200	76,003	127,457	355,290	10,963
–	–	–	–	10,021	5,782	–
52,368	183,143	25,200	797,041	184,430	1,244,725	10,963
356,792	387,865	25,200	(87,720)	1,495,745	1,240,976	(81,826)
265,691	224,410	–	–	1,207,272	1,438,814	–
–	–	–	(162,000)	–	(162,000)	–
–	–	–	–	847,274	575,666	–
(321,769)	(81,000)	–	–	(3,944,734)	(1,889,436)	–
–	–	(25,200)	(1,371,480)	(25,200)	(1,371,480)	–
300,714	531,275	–	(1,621,200)	(419,643)	(167,460)	(81,826)
1,501,947	970,672	–	1,621,200	53,042,759	53,210,219	(391,270)
(173,331)	–	–	–	(935,988)	–	–
1,328,616	970,672	–	1,621,200	52,106,771	53,210,219	(391,270)
\$ 1,629,330	\$ 1,501,947	\$ –	\$ –	\$ 51,687,128	\$ 53,042,759	\$ (473,096)

CITY OF PRIOR LAKE

Statements of Cash Flows
 Proprietary Funds
 Years Ended December 31, 2015 and 2014

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2015	2014	2015	2014
Cash flows from operating activities				
Cash received from customers	\$ 3,353,746	\$ 3,033,117	\$ 2,413,895	\$ 2,363,958
Cash payments to suppliers	(962,908)	(1,023,906)	(1,472,910)	(1,405,781)
Cash payments to employees	(665,621)	(638,750)	(599,584)	(646,129)
Net cash flows from operating activities	1,725,217	1,370,461	341,401	312,048
Cash flows from noncapital financing activities				
Special item – transfer of operations	–	–	–	–
Intergovernmental	4,550	574	–	–
Transfers in (out)	(2,279,145)	(1,306,350)	(1,343,820)	(502,086)
Net cash flows from noncapital financing activities	(2,274,595)	(1,305,776)	(1,343,820)	(502,086)
Cash flows from capital and related financing activities				
Miscellaneous	10,021	5,782	–	–
Purchase of capital assets	(231,140)	–	–	–
Net cash flows from capital financing activities	(221,119)	5,782	–	–
Cash flows from investing activities				
Interest received on cash and investments	58,274	149,359	34,017	108,826
Net increase (decrease) in cash and cash equivalents	(712,223)	219,826	(968,402)	(81,212)
Cash and cash equivalents, January 1	3,370,513	3,150,687	2,542,663	2,623,875
Cash and cash equivalents, December 31	\$ 2,658,290	\$ 3,370,513	\$ 1,574,261	\$ 2,542,663

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2015	2014	2015	2014	2015	2014	
\$ 933,970	\$ 754,362	\$ 161,614	\$ 201,944	\$ 6,863,225	\$ 6,353,381	\$ 24,945
(183,922)	(281,064)	(1,058,650)	(1,052,690)	(3,678,390)	(3,763,441)	–
(276,195)	(273,217)	–	(48,165)	(1,541,400)	(1,606,261)	(165,498)
473,853	200,081	(897,036)	(898,911)	1,643,435	983,679	(140,553)
–	–	(25,200)	(384,708)	(25,200)	(384,708)	–
42,402	162,041	–	721,038	46,952	883,653	–
(321,769)	(81,000)	–	–	(3,944,734)	(1,889,436)	–
(279,367)	81,041	(25,200)	336,330	(3,922,982)	(1,390,491)	–
–	–	–	–	10,021	5,782	–
(49,113)	(47,280)	–	(162,000)	(280,253)	(209,280)	–
(49,113)	(47,280)	–	(162,000)	(270,232)	(203,498)	–
9,966	21,102	25,200	76,003	127,457	355,290	10,963
155,339	254,944	(897,036)	(648,578)	(2,422,322)	(255,020)	(129,590)
542,333	287,389	897,036	1,545,614	7,352,545	7,607,565	535,208
<u>\$ 697,672</u>	<u>\$ 542,333</u>	<u>\$ –</u>	<u>\$ 897,036</u>	<u>\$ 4,930,223</u>	<u>\$ 7,352,545</u>	<u>\$ 405,618</u>

(continued)

CITY OF PRIOR LAKE

Statements of Cash Flows (continued)
 Proprietary Funds
 Years Ended December 31, 2015 and 2014

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2015	2014	2015	2014
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	\$ 1,042,898	\$ 754,485	\$ (36,007)	\$ (78,195)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Depreciation	657,131	635,677	407,075	378,271
(Increase) decrease in assets and deferred outflows of resources				
Accounts receivable	(17,938)	(6,681)	(19,074)	(5,472)
Special assessments receivable	(14,497)	(19,328)	–	–
Due from other governments	(3,371)	7,444	44	7
Deferred outflows of resources	(42,621)	–	(35,518)	–
Increase (decrease) in liabilities and deferred inflows of resources				
Accounts and contracts payable	42,488	(35,187)	(14,935)	19,736
Accrued salaries and employee benefits payable	(585)	3,558	1,799	808
Due to other governmental agencies	(4,368)	21,019	(2,055)	1,193
Deposits payable	(500)	3,000	–	–
Compensated absences payable	9,517	6,474	(7,481)	(4,300)
Net pension liability	12,535	–	10,446	–
Deferred inflows of resources	44,528	–	37,107	–
Net cash flows from operating activities	<u>\$ 1,725,217</u>	<u>\$ 1,370,461</u>	<u>\$ 341,401</u>	<u>\$ 312,048</u>
Schedule of noncash activities from capital and related financing activities				
Capital assets contributed from other funds	<u>\$ 542,506</u>	<u>\$ 520,013</u>	<u>\$ 399,075</u>	<u>\$ 694,391</u>
Capital assets contributed to other funds	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>
Capital assets contributed by developers	<u>\$ 575,323</u>	<u>\$ 319,163</u>	<u>\$ 271,951</u>	<u>\$ 256,503</u>
Special item due to other governmental agency	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2015	2014	2015	2014	2015	2014	
\$ 304,424	\$ 204,722	\$ –	\$ (884,761)	\$ 1,311,315	\$ (3,749)	\$ (92,789)
91,968	60,956	–	–	1,156,174	1,074,904	–
(3,663)	(2,639)	7,771	(1,322)	(32,904)	(16,114)	14
–	–	–	–	(14,497)	(19,328)	–
72,389	(86,291)	153,843	(11,872)	222,905	(90,712)	–
(17,759)	–	–	–	(95,898)	–	–
(15,184)	17,903	(60,364)	(956)	(47,995)	1,496	–
27	(1,123)	–	–	1,241	3,243	–
15,914	5,309	(998,286)	–	(988,795)	27,521	–
–	–	–	–	(500)	3,000	–
1,961	1,244	–	–	3,997	3,418	(47,778)
5,223	–	–	–	28,204	–	–
18,553	–	–	–	100,188	–	–
<u>\$ 473,853</u>	<u>\$ 200,081</u>	<u>\$ (897,036)</u>	<u>\$ (898,911)</u>	<u>\$ 1,643,435</u>	<u>\$ 983,679</u>	<u>\$ (140,553)</u>
<u>\$ 265,691</u>	<u>\$ 224,410</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,207,272</u>	<u>\$ 1,438,814</u>	<u>\$ –</u>
<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ (162,000)</u>	<u>\$ –</u>	<u>\$ (162,000)</u>	<u>\$ –</u>
<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 847,274</u>	<u>\$ 575,666</u>	<u>\$ –</u>
<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 986,772</u>	<u>\$ –</u>	<u>\$ 986,772</u>	<u>\$ –</u>

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CITY OF PRIOR LAKE

Notes to Basic Financial Statements
December 31, 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The City of Prior Lake, Minnesota (the City) operates under “Optional Plan B” as defined in Minnesota Statutes. Under this plan, the government of the City is directed by a City Council composed of an elected Mayor and four elected councilmembers. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

B. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the City (the primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit’s board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

As a result of applying these criteria, certain organizations have been included or disclosed in this report as follows:

Blended Component Unit – The Prior Lake Economic and Development Authority (EDA) was created pursuant to Minnesota Statutes § 469.090 through § 469.108 to carryout economic and industrial development and redevelopment within the City in accordance with policies established by the City Council. The five-member Board of Directors consists of two councilmembers and three members appointed from the community. The EDA is reported as a blended component unit within the EDA Special Revenue Fund. Separate financial statements are not issued for this component unit. The EDA may not exercise any of the powers enumerated by the authorizing statutes without prior approval of the City Council.

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the City. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which significantly rely upon sales, fees, and charges for support.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges between the City's enterprise funds and other functions are not eliminated, as that would distort the direct costs and program revenues reported in those functions. The City applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year-end. 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. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Major revenue that is susceptible to accrual includes property taxes, franchise taxes, special assessments, intergovernmental revenue, charges for services, and interest earned on investments. Major revenue that is not susceptible to accrual includes licenses and permits, fees, and miscellaneous revenue. Such revenue is recorded only when received because it is not measurable until collected.

- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements. 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 and internal service funds are charges to customers for sales and services. The operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses that do not meet this definition are reported as nonoperating revenues and expenses.

Aggregated information for the internal service funds is reported in a single column in the proprietary fund financial statements. Because the principal user of the internal services is the City's governmental activities, the financial statements of the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Description of Funds

The City reports the following major governmental funds:

General Fund – This is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

DAG Special Revenue Fund – This fund accounts for costs the City incurs in connection with a subdivision. The fees are paid to the City by the developer when the development contract and final plat are approved by the City Council. These revenues are used to pay for legal expenses incurred in connection with review and approval of the plat and inspection services on developer-installed utilities, including sewer, water, and street installation for newly-approved subdivisions within the City.

Debt Service Fund – This fund accounts for the resources accumulated to provide repayment of the City's general obligation debt.

Construction Capital Project Fund – This fund accounts for the resources accumulated and payments made for city projects.

The City reports the following major proprietary funds:

Water Fund – This fund is used to account for the operation, maintenance, and improvement of the City's water system.

Sewer Fund – This fund is used to account for the operation, maintenance, and improvement of the City's sewer collection operations.

Water Quality Fund – This fund accounts for the costs associated with the City's storm water system.

Transit Fund – This fund is used to account for the City's transit services, which are funded mainly by the Metropolitan Council. In 2014, the City transferred the responsibility for operating a transit operation to the Minnesota Valley Transit Authority (MVTA). The Transit Fund was closed in 2015.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City also reports the following fund types:

Internal Service Fund – This fund is used to account for the City’s severance benefits offered by the City to its employees. The Internal Service Fund operates in a manner similar to the enterprise funds; however, it provides services primarily to other departments within the City.

E. Cash and Investments

1. Deposits and Investments

The City’s cash and cash equivalents are considered to be cash on hand, demand deposits, government securities, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are combined and invested to the extent available in short-term investments. Earnings from the pooled investments are allocated to the individual funds based on the average monthly cash and investment balances of the respective funds.

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

Investments are generally stated at fair value, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including bankers’ acceptance and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

Cash held in escrow includes balances held in escrow accounts for future capital projects from energy loan proceeds and proceeds from refunding bonds held to pay off refunded bonds. Earnings on these accounts are allocated directly to those funds.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Investment Policy

The City's investment policy contains the following restrictions:

a) Allowable Investments

The City may invest in any type of security allowed by Minnesota Statutes and may be amended from time to time. The City has chosen to limit its allowable investments to those instruments listed below:

- 1) Bonds, notes, certificates of indebtedness, treasury bills, or other securities now or hereafter issued by the United States of America, its agencies and allowable instrumentalities;
- 2) Interest-bearing checking and savings accounts, or any other investments constituting direct obligations of any bank;
- 3) Certificates of deposit at state and federally-chartered institutions that are limited to the amount of coverage provided by the Federal Deposit Insurance Corporation (FDIC);
- 4) Money market accounts that are invested in the above referenced government securities.
- 5) State and local securities which have at the time of investment one of the three highest credit ratings by a nationally recognized rating agency.
- 6) Investments may be made only in those savings banks or savings and loan associations the shares, or investment certificates, of which are insured by the FDIC.
- 7) Investment products that are considered as derivatives are specifically excluded from approved investments.

b) Diversification

It is the policy of the City to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting in over concentration in a specific maturity, issuers, or class of securities. Diversification strategies shall be determined and revised periodically by the City's Finance Director. The diversification shall be as follows:

- 1) Up to 100 percent of 1., but not less than 10 percent
- 2) Up to 90 percent of 2. and 3.
- 3) Up to 20 percent of 4.
- 4) Up to 20 percent of 5.

c) Duration

It is the policy of the City to require that all investment maturities shall not extend beyond 10 years with no more than 20 percent maturing beyond 5 years. Subject to market conditions and cash flow requirements, it is desirable for the City's investments to be laddered over time in an effort to reduce interest rate market risk.

F. Receivables

Accounts receivable include amounts billed for services provided before year-end. The City annually certifies delinquent water and sewer accounts to the county for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property Taxes

Property tax levies are set by the City Council in December of each year, and are certified to Scott 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 and are recorded as receivables by the City on that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes are due in full on May 15. The county provides tax settlements to cities and other taxing districts three times a year; in July, December, and January. Taxes which remain unpaid on December 31 are classified as delinquent taxes receivable.

H. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as delinquent (levied but unremitted) or deferred (certified but not yet levied) special assessments receivable. Deferred contingent special assessments represent assessments on undeveloped property that will not be levied and collected until the properties are subdivided or developed.

I. 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. Prepaid items are reported using the consumption method and recorded as expenditures at the time of consumption.

J. Interfund Receivables and Payables

In the fund financial statements, activity between funds that is representative of lending or borrowing arrangements is reported as either “due to/from other funds” (current portion) or “advances to/from other funds.” 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.”

K. Capital Assets

Capital assets, which include property, buildings, improvements, equipment, infrastructure assets (roads, bridges, sidewalks, and similar items), and intangible assets such as easements, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value on the date of donation. The City defines capital assets as those with an initial, individual cost of \$5,000 or more with an estimated useful life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through back-trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets are recorded in the government-wide and proprietary fund financial statements, but are not reported in the governmental fund financial statements. Interest incurred during the construction phase of capital assets for business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives in Years</u>
Land improvements	5–20
Machinery and equipment	5–30
Vehicles	8–25
Infrastructure	10–65

Land, easements, and construction in progress are not depreciated.

L. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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.

M. Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick leave. Upon separation, unused vacation and 50 percent of sick pay are paid to the employee if employed longer than five years. The majority of separation benefits are paid into a retirement health savings plan.

The City has provided funding for these obligations in the Severance Compensation Internal Service Fund.

N. Other Post-Employment Benefits (OPEB)

Under Minnesota Statute § 471.61, Subd. 2b, public employers must allow retirees and their dependants to continue coverage indefinitely in an employer-sponsored healthcare plan, under the following conditions: 1) retirees must be receiving (or be eligible to receive) an annuity from a Minnesota public pension plan; 2) coverage must continue in a group plan until age 65, and retirees must pay no more than the group premium; and 3) retirees may obtain dependant coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, at January 1, 2014.

O. Pension Plans

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide and enterprise funds Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, difference between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of items which qualify for reporting in this category.

The first item, *unavailable revenue*, arises only under a modified accrual basis of accounting and, therefore, is only reported in the governmental funds Balance Sheet. The governmental funds report unavailable revenue from three sources: property taxes, special assessments, and land held for resale. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The second item, *deferred inflows of resources* related to pensions, is reported in the government-wide and enterprise funds Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

Q. Net Position

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

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

R. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Committed** – Consists of internally imposed constraints that are established by resolution of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to City Council resolution, the Finance Director is authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

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

S. Comparative Data

The basic financial statements include certain prior year partial comparative information in total, but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2014, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

T. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. The City does not prepare a budget for the DAG Special Revenue Fund. All annual appropriations lapse at year-end. The City does not use encumbrance accounting.

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

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control is the fund level.

U. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid debt instruments with an original maturity from the time of purchase by the City of three months or less to be cash equivalents. The proprietary funds' portion in the government-wide cash and investment management pool is considered to be cash equivalent.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for its general property and casualty, workers' compensation, and other miscellaneous insurance coverages. LMCIT operates as a common risk management and insurance program for a large number of cities in Minnesota. The City pays an annual premium to the LMCIT for insurance coverage. The LMCIT agreement provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. Settled claims did not exceed insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage in 2015.

W. Restricted Assets

Restricted assets are cash, investments, and interest accrued thereon; the use of which is limited by external requirements, such as a bond indenture or trust agreements.

X. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Y. Change in Accounting Principle

During the year ended December 31, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These statements included major changes in how employers account for pension benefit expenses and liabilities. In financial statements prepared using the economic resources measurement focus and the accrual basis of accounting (government-wide and proprietary funds), an employer is required to recognize a liability for its share of the net pension liability provided through the pension plan. An employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources for its share related to pensions. This standard required retroactive implementation, which resulted in the restatement of net position as of December 31, 2014. The details of the restatement are as follows:

	Governmental Activities	Business-Type Activities	Water	Sewer	Water Quality
Net position – December 31, 2014 (as reported)	\$ 106,539,841	\$ 53,042,759	\$ 31,192,000	\$ 20,348,812	\$ 1,501,947
Net pension asset	819,922	–	–	–	–
Deferred outflow – fire relief	20,000				
Deferred outflow related to pensions	289,718	41,890	18,618	15,515	7,757
Net pension liability	<u>(5,311,595)</u>	<u>(977,878)</u>	<u>(434,613)</u>	<u>(362,177)</u>	<u>(181,088)</u>
Net position – December 31, 2014 (as restated)	<u>\$ 102,357,886</u>	<u>\$ 52,106,771</u>	<u>\$ 30,776,005</u>	<u>\$ 20,002,150</u>	<u>\$ 1,328,616</u>

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	\$ 4,260,834
Investments	29,643,016
Cash on hand	<u>750</u>
Total	<u>\$ 33,904,600</u>

Cash and investments are presented in the financial statements as follows:

Cash and investments – Statement of Net Position	\$ 27,801,534
Restricted assets – temporarily restricted – cash and investments held in escrow	<u>6,103,066</u>
Total	<u>\$ 33,904,600</u>

B. Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council, including checking accounts and certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City has no additional deposit policies addressing custodial credit risk.

At year-end, the carrying amount of the City’s deposits was \$4,260,834 while the balance on the bank records was \$4,822,461. At December 31, 2015, all deposits were fully covered by federal depository insurance or collateral held by the City’s agent in the City’s name with the exception of two instances in which certificates of deposit at the same bank exceeded federal depository insurance coverage by \$484,995 in total.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

C. Investments

The City has the following investments at year-end:

Investment Type	Credit Risk		Interest Risk – Segmented Time Distribution in Years			Total
	Rating	Agency	Less Than 1	1 to 5	Over 5	
U.S. treasury securities	AAA	Moody's	\$ –	\$ 9,989	\$ –	\$ 9,989
U.S. government securities	AA+	S&P	–	10,713,927	3,112,112	13,826,039
Local government securities	AAA	S&P	–	253,842	–	253,842
Local government securities	AA+	S&P	–	2,615,895	–	2,615,895
Negotiable certificates of deposit	N/R	N/A	2,858,845	5,647,629	1,451,069	9,957,543
			<u>\$ 2,858,845</u>	<u>\$ 19,241,282</u>	<u>\$ 4,563,181</u>	26,663,308
Investment pools/mutual funds						
Minnesota Municipal Money Market Fund	N/R	N/A				2,174,317
Fidelity Treasury Portfolio – Class I	AAA	S&P				768,868
Wells Fargo Advantage Government Money Market	AAA	S&P				4,000
Northland Federated Treasury Cash Series	AAA	S&P				32,523
Total investment pools/mutual funds						<u>2,979,708</u>
Total investments						<u>\$ 29,643,016</u>

N/A – Not Applicable

N/R – Not Rated

The 4M Fund is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The City's investment in the 4M Fund is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy addressing this risk, but typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the City’s investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The City’s investment policy as described in Note 1 addresses credit risk.

Concentration Risk – This is the risk associated with investing a significant portion of the City’s investment (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. At December 31, 2015, the City had 11.7 and 33.3 percent of its portfolio invested with Federal Home Loan Mortgage Corporation and Federal Home Loan Bank, respectively. The City’s investment policy as described in Note 1 addresses concentration risk.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City has an investment policy as described in Note 1 which addresses interest rate risk.

NOTE 3 – CAPITAL ASSETS

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

A. Changes in Capital Assets Used in Governmental Activities

	Beginning of Year	Additions	Deletions	Transfers, Contributions, and Completed Construction	End of Year
Capital assets, not depreciated					
Land	\$ 32,075,809	\$ 145,440	\$ –	\$ –	\$ 32,221,249
Easements	33,661,179	3,153,574	–	8,550	36,823,303
Construction in progress	6,882,779	11,864,496	–	(3,517,286)	15,229,989
Total capital assets, not depreciated	72,619,767	15,163,510	–	(3,508,736)	84,274,541
Capital assets, depreciated					
Land improvements	2,154,994	–	–	75,324	2,230,318
Machinery and equipment	5,624,163	148,871	(98,923)	351,039	6,025,150
Vehicles	5,232,345	668,392	(433,227)	–	5,467,510
Infrastructure	85,867,940	1,831,850	–	1,913,567	89,613,357
Total capital assets, depreciated	98,879,442	2,649,113	(532,150)	2,339,930	103,336,335
Less accumulated depreciation on					
Land improvements	(1,374,674)	(82,875)	–	–	(1,457,549)
Machinery and equipment	(3,021,182)	(362,789)	77,568	–	(3,306,403)
Vehicles	(4,250,373)	(308,170)	422,285	–	(4,136,258)
Infrastructure	(41,776,717)	(2,715,976)	–	–	(44,492,693)
Total accumulated depreciation	(50,422,946)	(3,469,810)	499,853	–	(53,392,903)
Net capital assets, depreciated	48,456,496	(820,697)	(32,297)	2,339,930	49,943,432
Total capital assets, net	\$ 121,076,263	\$ 14,342,813	\$ (32,297)	\$ (1,168,806)	\$ 134,217,973

B. Changes in Capital Assets Used in Business-Type Activities

	Beginning of Year	Additions	Deletions	Transfers, Contributions, and Completed Construction	End of Year
Capital assets, not depreciated					
Easements	\$ 75,300	\$ –	\$ –	\$ –	\$ 75,300
Construction in progress	47,281	280,253	–	–	327,534
Total capital assets, not depreciated	122,581	280,253	–	–	402,834
Capital assets, depreciated					
Land improvements	87,739	–	–	–	87,739
Machinery and equipment	997,968	13,950	–	–	1,011,918
Vehicles	302,245	24,516	(21,268)	–	305,493
Infrastructure	58,817,553	847,274	–	1,168,806	60,833,633
Total capital assets, depreciated	60,205,505	885,740	(21,268)	1,168,806	62,238,783
Less accumulated depreciation on					
Land improvements	(21,836)	(4,387)	–	–	(26,223)
Machinery and equipment	(559,706)	(49,381)	–	–	(609,087)
Vehicles	(286,505)	(8,786)	21,268	–	(274,023)
Infrastructure	(12,832,855)	(1,093,620)	–	–	(13,926,475)
Total accumulated depreciation	(13,700,902)	(1,156,174)	21,268	–	(14,835,808)
Net capital assets, depreciated	46,504,603	(270,434)	–	1,168,806	47,402,975
Total capital assets, net	\$ 46,627,184	\$ 9,819	\$ –	\$ 1,168,806	\$ 47,805,809

NOTE 3 – CAPITAL ASSETS (CONTINUED)

C. Depreciation Expense by Function

Depreciation expense for the year ended December 31, 2015 was charged to the following functions:

Governmental activities		
General government	\$	472,390
Public safety		212,225
Public works		2,342,883
Culture and recreation		442,312
		<u>442,312</u>
Total depreciation expense – governmental activities	\$	<u>3,469,810</u>
Business-type activities		
Water	\$	657,131
Sewer		407,075
Water quality		91,968
		<u>91,968</u>
Total depreciation expense – business-type activities	\$	<u>1,156,174</u>

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Interfund borrowing is done for cash flow purposes. The composition of interfund balances as of December 31, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$ <u>68,926</u>

B. Interfund Transfers

A schedule of interfund transfers is as follows:

<u>Transfers Out</u>	<u>Transfer In</u>				<u>Total</u>
	<u>General</u>	<u>Debt Service</u>	<u>Construction</u>	<u>Nonmajor</u>	
Governmental funds					
General	\$ –	\$ 1,036,245	\$ –	\$ –	\$ 1,036,245
Construction	–	135,076	–	–	135,076
Nonmajor	–	107,260	1,717,296	–	1,824,556
Proprietary funds					
Water	177,760	515,718	1,485,667	100,000	2,279,145
Sewer	177,760	–	1,096,060	70,000	1,343,820
Water Quality	–	–	300,769	21,000	321,769
	<u>\$ 355,520</u>	<u>\$ 1,794,299</u>	<u>\$ 4,599,792</u>	<u>\$ 191,000</u>	<u>\$ 6,940,611</u>

Transfers are used to move revenues from the funds in which they are collected to the funds where they are to be spent in accordance with statutory, budgetary, or contractual requirements.

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Debt

	Original Issue	Interest Rate	Issue Date	Final Maturity Date	Balance – End of Year
Governmental activities					
General obligation bonds					
Park Refunding Bonds of 2005	\$ 6,260,000	3.75–5.00%	09/01/2005	12/01/2017	\$ 1,535,000
Street Reconstruction Bonds of 2007	\$ 1,400,000	4.00%	05/15/2007	12/15/2017	330,000
Capital Improvement Plan Bonds	\$ 1,225,000	3.80–3.90%	08/01/2007	02/01/2017	290,000
Fire Hall Refunding Bonds 2011B	\$ 3,500,000	2.00–3.40%	12/14/2011	12/15/2031	3,380,000
Capital Improvement Refunding Bonds 2012A	\$ 9,825,000	2.00–2.70%	03/13/2012	12/15/2029	8,240,000
Total general obligation bonds					<u>13,775,000</u>
General obligation special assessment bonds					
Improvement Bonds of 2009A	\$ 1,700,000	1.10–3.50%	05/15/2009	12/15/2019	700,000
Improvement Bonds of 2010A	\$ 1,235,000	0.80–3.20%	05/26/2010	12/15/2020	635,000
Improvement Bonds of 2011A	\$ 2,130,000	1.80–2.50%	08/31/2011	12/15/2021	1,315,000
Improvement Bonds of 2011B	\$ 2,280,000	2.00–2.35%	12/14/2011	12/15/2022	1,640,000
Improvement Bonds of 2013A	\$ 3,240,000	2.00–2.65%	08/15/2013	12/15/2023	2,590,000
Improvement Bonds of 2014A	\$ 2,665,000	2.00–2.50%	09/25/2014	12/15/2024	2,360,000
Improvement Bonds of 2015A	\$ 4,640,000	2.00–3.00%	05/14/2015	12/15/2030	4,640,000
Improvement Bonds of 2015B	\$ 2,490,000	1.00–2.25%	05/14/2015	12/15/2022	2,490,000
Total general obligation special assessment bonds					<u>16,370,000</u>
Tax increment bonds					
Tax Increment Refunding Bonds of 2011A	\$ 290,000	1.80–3.00%	08/31/2011	12/15/2024	225,000
General obligation revenue bonds					
Water Treatment Plant Revenue Bonds of 2007A	\$ 8,500,000	4.00–4.20%	05/15/2007	12/15/2032	7,290,000
General Obligation Improvement Bonds of 2015A	\$ 5,360,000	1.00–3.00%	05/14/2015	12/15/2031	5,360,000
Total general obligation revenue bonds					<u>12,650,000</u>
Premium (discount) on bonds payable					495,558
Energy loan payable	\$ 2,667,924	2.12%	12/08/2014	06/19/2025	2,574,450
Compensated absences payable					994,544
Net OPEB obligation					236,195
Net pension liability – GERF and PEPFF					<u>6,453,193</u>
Total long-term debt					<u>\$ 53,773,940</u>

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Changes in Long-Term Debt

	Balance – Beginning of Year	Change in Accounting Principle*	Additions	Deletions	Balance – End of Year	Due Within One Year
Governmental activities						
Bonds payable						
G.O. bonds	\$ 15,290,000	\$ –	\$ –	\$ 1,515,000	\$ 13,775,000	\$ 1,625,000
G.O. special assessment bonds	10,595,000	–	7,130,000	1,355,000	16,370,000	1,660,000
G.O. tax increment bonds	245,000	–	–	20,000	225,000	20,000
G.O. revenue bonds	7,510,000	–	5,360,000	220,000	12,650,000	240,000
Premium (discount) on bonds payable	292,599	–	278,608	75,649	495,558	–
Total bonds payable, net of premium (discount)	33,932,599	–	12,768,608	3,185,649	43,515,558	3,545,000
Energy loan payable	2,667,924	–	–	93,474	2,574,450	247,365
Compensated absences payable	929,153	–	118,812	166,590	881,375	319,934
Net OPEB obligation	143,314	–	110,580	17,699	236,195	–
Net pension liability – GERF and PEPFF	–	5,311,595	1,699,300	1,563,784	5,447,111	–
Governmental activities long-term liabilities	<u>\$ 37,672,990</u>	<u>\$ 5,311,595</u>	<u>\$ 14,697,300</u>	<u>\$ 5,027,196</u>	<u>\$ 52,654,689</u>	<u>\$ 4,112,299</u>
Business-type activities						
Compensated absences payable	\$ 109,172	\$ –	\$ 13,506	\$ 9,509	\$ 113,169	\$ 42,513
Net pension liability – GERF	–	977,878	246,257	218,053	1,006,082	–
Business-type activities long-term liabilities	<u>\$ 109,172</u>	<u>\$ 977,878</u>	<u>\$ 259,763</u>	<u>\$ 227,562</u>	<u>\$ 1,119,251</u>	<u>\$ 42,513</u>

*Adjustment is part of the change in accounting principle described earlier in these notes.

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt are as follows:

Year Ending December 31,	Governmental Activities									
	General Obligation		G.O. Special Assessment		Tax Increment Bonds		G.O. Revenue Bonds		Energy Loan Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 1,625,000	\$ 375,270	\$ 1,660,000	\$ 366,000	\$ 20,000	\$ 5,520	\$ 240,000	\$ 431,839	\$ 247,365	\$ 53,249
2017	1,645,000	313,350	1,610,000	333,655	20,000	5,160	5,420,000	422,239	252,634	47,980
2018	610,000	254,475	2,065,000	301,498	25,000	4,800	355,000	199,325	258,016	42,598
2019	635,000	242,275	1,655,000	260,223	25,000	4,300	375,000	187,375	263,512	37,102
2020	675,000	229,575	1,350,000	224,158	25,000	3,763	400,000	174,625	269,126	31,488
2021–2025	3,955,000	922,115	5,145,000	705,860	110,000	8,425	2,365,000	664,525	1,283,797	68,964
2026–2030	4,315,000	387,210	2,885,000	249,999	–	–	2,855,000	351,100	–	–
2031–2032	315,000	10,710	–	–	–	–	640,000	19,200	–	–
	<u>\$ 13,775,000</u>	<u>\$ 2,734,980</u>	<u>\$ 16,370,000</u>	<u>\$ 2,441,393</u>	<u>\$ 225,000</u>	<u>\$ 31,968</u>	<u>\$ 12,650,000</u>	<u>\$ 2,450,228</u>	<u>\$ 2,574,450</u>	<u>\$ 281,381</u>

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Descriptions and Restrictions of Long-Term Debt

General Obligation Bonds – The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. They will be repaid with ad valorem taxes. General obligation bonds have been issued for general government activities. In addition, general obligation bonds have been issued to refund bond issues. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The capital improvement plan bonds were issued on behalf of the City by Scott County for the City's share of the County Road 82 improvement.

General Obligation Special Assessment Bonds – Special assessment bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by full faith and credit of the City.

General Obligation Tax Increment Bonds – These bonds were issued for downtown redevelopment projects. The additional tax increments resulting from increased tax capacity of the redeveloped properties will be used to retire related debt.

General Obligation Revenue Bonds – These bonds were used to finance maintenance and building improvements. They will be repaid with ad valorem taxes and revenue from the utilities. The bonds are backed by the full faith and credit of the City.

Compensated Absences – This liability represents vested benefits earned by employees through the end of the year, which will be paid at termination of employment in future years. The Internal Service Fund and enterprise funds will be used to liquidate this liability.

Net OPEB Obligation – Long-term liabilities for OPEB will be paid by the General Fund and enterprise funds.

Net Pension Liability – The details of this liability are disclosed elsewhere in these notes. Such benefits are financed by the General Fund and enterprise funds.

Refunding Bonds – In 2015, the City issued \$10,000,000 of General Obligation Bonds, Series 2015A. A portion of the bond issue is a crossover refunding of the 2007A Water Treatment Plant Revenue Bonds. The proceeds of the new bonds were deposited in an escrow account on May 14, 2015, the closing date. The escrow investments bear interest rates that will provide sufficient funds to refund the old bonds when called on December 15, 2017. The escrow account also provided debt service payments on the new bonds until the crossover date. The old bonds are considered defeased on the crossover date and, therefore, will be removed as a liability on that date. As a result of the crossover refunding issue, the City will save \$752,549 in debt service payments and achieve an economic gain (the present value of the difference between the old and the new debt service) of \$536,817.

Energy Loan Payable – In 2014, the City entered into an energy loan payable for the purpose of furnishing certain equipment and work designed to reduce energy consumption and operational costs in the City. In this energy loan payable agreement, the provider guarantees a minimum level of energy and operational savings in the City. Payments on the loan will be made semiannually in the amount of \$150,307 commencing December 19, 2015 and each June and December 19 thereafter until final payment is made on June 19, 2025.

NOTE 5 – LONG TERM DEBT (CONTINUED)

E. Conduit Debt Obligations

Conduit debt obligations are certain limited-obligation revenue bonds or similar instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued 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. The aggregate amount of all conduit debt outstanding at December 31, 2015 is \$27,785,000.

F. Revenue Pledged

Future revenue pledged for the payment of long-term debt is as follows:

Bond Issue	Use of Proceeds	Revenue Pledged			Remaining Principal and Interest	Current Year	
		Type	Percent of Total Debt Service	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
Tax Increment Refunding Bonds of 2011A	Street and site improvements	Tax increment financing	100%	2011–2024	\$ 256,968	\$ 25,880	\$ 89,291
Water Treatment Plant Revenue Bonds of 2007A	Water Treatment Facility	Utility charges	100%	2007–2032	\$ 8,081,028	\$ 526,514	\$ 3,390,052
General Obligation Bonds of 2015A	Partial refunding	Utility charges	100%	2015–2031	\$ 7,019,200	\$ 83,456	\$ 3,390,052

G. Legal Debt Margin

The City's statutory debt limit is equal to 3 percent of estimated taxable market value of property located within the City. The taxable market value totals \$2,620,934,100, which calculates to a debt margin of \$78,628,023. Debt financed partially or entirely by special assessments is not applied against the City's debt limit, nor is debt financed by proprietary fund revenues. Currently, the City has \$13,775,000 of general obligation debt outstanding, leaving a debt margin of \$64,853,023.

H. Tax Increment Districts

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

NOTE 6 – FUND BALANCES

A. Classifications

At December 31, 2015, a summary of the City’s governmental fund balance classifications are as follows:

	General Fund	DAG Special Revenue Fund	Debt Service Fund	Construction Fund	Nonmajor Funds	Total
Nonspendable						
Prepaid items	\$ 9,150	\$ –	\$ –	\$ –	\$ –	\$ 9,150
Restricted						
Future debt service	–	–	7,561,906	–	320,527	7,882,433
Capital improvements	–	–	–	661,868	–	661,868
Economic development	–	–	–	–	215,594	215,594
Tax increment	–	–	–	–	491,339	491,339
Forfeiture sales	74,506	–	–	–	143,489	217,995
Total restricted	74,506	–	7,561,906	661,868	1,170,949	9,469,229
Assigned						
Capital improvements	–	–	–	3,572,902	5,540,515	9,113,417
Development	–	743,774	–	–	183,944	927,718
Communications	–	–	–	–	66,685	66,685
Total assigned	–	743,774	–	3,572,902	5,791,144	10,107,820
Unassigned						
	6,041,095	–	(2,070)	–	–	6,039,025
Total	\$ 6,124,751	\$ 743,774	\$ 7,559,836	\$ 4,234,770	\$ 6,962,093	\$ 25,625,224

C. Minimum Unrestricted Fund Balance Policy

The City Council has formally adopted a fund balance policy regarding the minimum unrestricted fund balance for the General Fund. The policy establishes that the City will strive to maintain an unrestricted General Fund balance (which includes committed, assigned, and unassigned classifications) between 40 and 50 percent of the subsequent year’s General Fund budgeted expenditures. At December 31, 2015, the unrestricted fund balance of the General Fund was 46.7 percent of the subsequent year’s budgeted expenditures and transfers out.

The City Council may consider the judicious use of reserve balances in the following situations:

- to fund an expenditure of long-term benefit or legacy to the community
- to fund a one-time (nonrecurring) expenditure or grant matching opportunity
- to fund a one-time unplanned revenue shortfall
- to fund an unplanned expenditure due to an emergency or disaster
- to moderate property taxes
- to retire existing debt
- to fund policy shifts by other governmental entities having a negative impact on the City
- to provide catch-up funding for long-term obligations not previously recognized

In no case will the unrestricted balance be allowed to fall below 40 percent.

In the event that the year-end unrestricted balance is projected to be less than the target level due to the use of unrestricted balances for purposes identified above, a plan must be presented to the City Council at the time the unrestricted funds are appropriated that will reestablish the target level within 24 to 36 months.

If restoration of the unrestricted balance cannot be accomplished within such period without severe hardship to the City, then the City Council will establish a different time period.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Description

The City participates in the following cost-sharing, multiple-employer defined benefit pension plans administered by the PERA. The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. The 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 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 Public Employees Police and Fire Fund (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 the PERA.

B. Benefits Provided

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

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

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

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 the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

2. PEPFF Benefits

Benefits for PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after 10 years of credited service. Benefits for PEPFF members first hired after June 30, 2014 vest on a prorated basis from 50 percent after 10 years up to 100 percent after 20 years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

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. GERF Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2015. The City was required to contribute 7.50 percent for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015 were \$314,233. The City's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary in calendar year 2015. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2015. The City's regular contributions to the PEPFF for the year ended December 31, 2015 were \$363,525. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City reported a liability of \$3,726,231 for its proportionate share of the GERF'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's proportion of the net pension liability was based on the City's contributions received by the 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 the PERA's participating employers. At June 30, 2015, the City's proportionate share was 0.0719 percent, which was a decrease of 0.0052 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$120,349 for its proportionate share of the GERF's pension expense.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

At December 31, 2015, the City reported its proportionate share of the GERS’ 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	\$ –	\$ 187,865
Differences between projected and actual investment earnings	352,745	–
Changes in proportion	–	183,202
Contributions paid to the PERA subsequent to the measurement date	<u>157,581</u>	<u>–</u>
Total	<u>\$ 510,326</u>	<u>\$ 371,067</u>

Deferred outflows of resources reported \$157,581 related to pensions resulting from city contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending 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	\$ (35,504)
2017	\$ (35,504)
2018	\$ (35,504)
2019	\$ 88,190

2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$2,726,962 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’s proportion of the net pension liability was based on the City’s contributions received by the 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 the PERA’s participating employers. At June 30, 2015, the City’s proportion was 0.240 percent, which was a decrease of 0.007 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$93,038 for its proportionate share of the PEPFF’s pension expense. The City also recognized \$21,600 for the year ended December 31, 2015, as 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 contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

At December 31, 2015, the City reported its proportionate share of the 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	\$ –	\$ 442,224
Differences between projected and actual investment earnings	475,128	–
Changes in proportion	–	63,002
Contributions paid to the PERA subsequent to the measurement date	<u>194,380</u>	<u>–</u>
Total	<u>\$ 669,508</u>	<u>\$ 505,226</u>

Deferred outflows of resources reported \$194,380 related to pensions resulting from the city contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending 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	\$ 17,737
2017	\$ 17,737
2018	\$ 17,737
2019	\$ 17,737
2020	\$ (101,046)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial 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 disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent effective every January 1st until 2034, then 2.5 percent for the GERF and the PEPFF.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience 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 the PEPFF was for the period July 1, 2004 through June 30, 2009.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of the PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 percent. 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 the statute. Based on that assumption, each 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.

G. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
The City's proportionate share of the GERF net pension liability	\$ 5,858,960	\$ 3,726,231	\$ 1,964,925
The City's proportionate share of the PEPFF net pension liability	\$ 5,314,877	\$ 2,726,962	\$ 588,893

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 PERA website at www.mnpera.org.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION

A. Plan Description

All members of the Prior Lake Fire Department (the Department) are covered by a defined benefit plan administered by the Association. As of December 31, 2014, the plan covered 37 active firefighters and 10 vested terminated firefighters whose pension benefits are deferred. The plan was established November 1, 1957, and the Association operates under the provisions of Minnesota Laws 1965, Chapter 446, as amended and Minnesota Statutes, Chapters 69 and 424A. It is governed by a Board of Trustees (the Board) made up of six members elected by the members of the Association for three-year terms, and the Mayor, City Manager, and Fire Chief, who serve as ex-officio voting members of the Board of Trustees.

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

B. Benefits Provided

Retirement Benefits

According to the bylaws of the Association and pursuant to Minnesota Statutes, Chapter 424A.02, Subdivisions 2 and 4, the Association pays to each member who has served as an active firefighter in the Department for a period of 20 years or more to his/her resignation, and who has reached the age of 50 years or more, \$6,800 per year of service for lump sum. A member who has served in the Department for at least 20 years, but has not reached the age of 50 may retire and be placed on the deferred pension roll until he/she reaches the age of 50. Members who retire with less than 20 years of service and have reached the age of 50 and have completed at least 10 years of active membership are entitled to a reduced service pension.

Disability Benefits

If a member of the Association becomes totally or permanently disabled, the Association shall pay to such members the sum of \$6,800 lump sum plan for each year that they have served as an active member of the Department.

Death Benefit

Upon the death of any member of the Association who is in good standing at the time of their death, the Association shall pay to the surviving spouse, if any, and if there is no surviving spouse, to surviving child or children, if any, and if no child or children survive, to the estate of such deceased member under 10 years of service, the sum of \$6,800 for each year that they served as an active member of the Department.

**NOTE 8 – DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION
(CONTINUED)**

C. Contributions

Minnesota Statutes, Chapters 424 and 424A, authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings, and, if necessary, employer contributions as specified in Minnesota Statutes and voluntary city contributions (if applicable). The state of Minnesota contributed \$195,194 in fire state aid to the plan on behalf of the Department for the year ended December 31, 2014, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City’s statutorily-required contributions to the plan for the year ended December 31, 2014 were \$195,194. The City’s contributions were equal to the required contributions as set by state statute. The City made a \$20,000 voluntary contribution to the plan in the year ended December 31, 2014. Furthermore, firefighters have no obligation to contribute to the plan.

D. Pension Costs

At December 31, 2015, the City reported a net pension liability (asset) of \$927,888 for the plan. The net pension liability (asset) was measured as of December 31, 2014. The total pension liability (asset) used to calculate the net pension liability (asset) in accordance with GASB Statement No. 68 was determined by an actuary applying an actuarial formula to specific census data certified by the Department as of December 31, 2014.

The following table presents the changes in net pension liability (asset):

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
	<u> </u>	<u> </u>	<u> </u>
Beginning balance – January 1, 2014	\$ 2,481,307	\$ 3,301,229	\$ (819,922)
Changes for the year			
Service cost	106,719	–	106,719
Interest on pension liability (asset)	148,718	–	148,718
Projected investment earnings	–	204,330	(204,330)
Contributions (employer)	–	20,000	(20,000)
Contributions (state)	–	195,194	(195,194)
Asset (gain) loss	–	(49,474)	49,474
Administrative costs	–	(6,647)	6,647
Total net changes	<u>255,437</u>	<u>363,403</u>	<u>(107,966)</u>
Ending balance – December 31, 2014	<u>\$ 2,736,744</u>	<u>\$ 3,664,632</u>	<u>\$ (927,888)</u>

For the year ended December 31, 2014, the City recognized pension revenue of \$195,194 and pension expense of \$146,807.

**NOTE 8 – DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION
(CONTINUED)**

At December 31, 2015, the City reported deferred inflows of resources and deferred outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on plan investments	\$ –	\$ 39,578
State aid to the City subsequent to the measurement date	–	209,000
Contributions from the City subsequent to the measurement date	<u>229,000</u>	<u>–</u>
Total	<u>\$ 229,000</u>	<u>\$ 248,578</u>

Deferred outflows of resources totaling \$229,000 related to pensions resulting from the city contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Deferred inflows of resources totaling \$209,000 related to state aid received subsequent to the measurement date will be recognized for its impact on the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to the plan will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2016	\$ (9,895)
2017	\$ (9,895)
2018	\$ (9,895)
2019	\$ (9,893)

E. Actuarial Assumptions

The total pension liability at December 31, 2014 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement eligibility at 100 percent service pension at age 50 with 20 years of service, early vested retirement at age 50 with 10 years of service vested at 60 percent and increased by 4 percent for each additional year of service up to 20 and eligibility for deferred service pension payable at age 50 with 20 years of service	
Salary increases	2.50%
Cost of living increases	5.90%
Investment rate of return	6.00%
20-year municipal bond yield	3.50%

The 6 percent long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan's target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

**NOTE 8 – DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION
(CONTINUED)**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	14.00 %	2.00 %
Fixed income	26.00	5.00
Equities	58.00	7.50
Other	2.00	6.00
Total	100.00 %	

F. Discount Rate

The discount rate used to measure the total pension liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in the statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability (Asset) Sensitivity

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

	1 Percent Decrease (5.00%)	Current (6.00%)	1 Percent Increase (7.00%)
Defined benefit plan	\$ (826,450)	\$ (927,888)	\$ (1,024,219)

H. Pension Plan Fiduciary Net Position

The Association issues a publicly available financial report. This report may be obtained by writing to the Prior Lake Fire Relief Association, 5316 Hampton Street, Prior Lake, MN 55372.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS PLAN

A. Plan Description

The City provides post-employment benefits to certain eligible employees through the City's Other Post-Employment Benefits Plan, a single-employer defined benefit plan administered by the City. All post-employment benefits are based on contractual agreements with employee groups. As of January 1, 2014, the plan had 84 active participants and 2 retired participants. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the City have the option under state law to continue their medical insurance coverage through the City from the time of retirement until the employee reaches the age of eligibility for Medicare. For two employees, the City pays for all of the eligible retiree's premiums for medical insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Retirees not eligible for these city-paid premium benefits must pay the full city premium rate for their coverage.

The City is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the City or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the City's younger and statistically healthier active employees.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the City. There is no invested plan assets accumulated for payment of future benefits.

C. Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the City, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation to the plan:

ARC	\$ 113,021
Interest on net OPEB obligation	5,733
Adjustment to ARC	(8,174)
Annual OPEB cost	<u>110,580</u>
Contributions made	<u>(17,699)</u>
Increase in net OPEB obligation	92,881
Net OPEB obligation – beginning of year	<u>143,314</u>
Net OPEB obligation – end of year	<u>\$ 236,195</u>

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year are as follows:

<u>Year Ended December 31,</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 110,580	\$ 17,699	16.0%	\$ 236,195
2014	\$ 158,749	\$ 15,435	9.7%	\$ 143,314

D. Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$753,525, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$753,525. The covered payroll (annual payroll of active employees covered by the plan) was \$5,840,769, and the ratio of the UAAL to the covered payroll was 12.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, the entry age normal level dollar method was used. The actuarial assumptions included: a 4.0 percent investment rate of return (net of administrative expenses) based on the City's own investments; a 2.5 percent rate of projected salary increases; a general inflation rate of 2.5 percent; and an annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after six years. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization base periods at January 1, 2014 is 30 years.

NOTE 10 – STEWARDSHIP AND ACCOUNTABILITY

Deficit Net Position

As of December 31, 2015, the Internal Service Fund had a deficit net position of \$473,096. This deficit will be eliminated by future charges for services. The Park Referendum, Fire Station Number 2, and GESF Lease Nonmajor Debt Service Accounts had deficit fund balances of \$175, \$88, and \$1,807, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Funding

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

B. Legal Claims

The City has the usual and customary type of miscellaneous legal claims pending at year-end. Although the outcome of these lawsuits is not presently determinable, the City's management believes that the City will not incur any material monetary loss resulting from these claims. No loss has been recorded on the City's financial statements relating to these claims.

C. Construction Contracts

During fiscal 2015, the City awarded contracts for various construction and remodeling projects. The City's commitment for uncompleted work on these contracts at December 31, 2015 is \$3,612,111.

NOTE 12 – SPECIAL ITEM – TRANSFER OF OPERATIONS

During the year ended December 31, 2014, the City transferred the responsibility for operating a transit operation to the Minnesota Valley Transit Authority (MVTA). As part of transferring this responsibility, the City is required by Minnesota Statutes to transfer the remaining assets, liabilities, and net position to the MVTA as well. During fiscal 2015, the City earned interest revenue on cash and investments held in the Transit Fund for a portion of the year. The transfer of this revenue to the MVTA is reported as a special item in the Statement of Activities and the Statement of Revenues, Expenses, and Changes in Net Position in fiscal 2015. The Transit Fund was closed in 2015.

NOTE 13 – SUBSEQUENT EVENT

In May 2016, the City Council approved the issuance and sale of \$3,505,000 General Obligation Bonds, Series 2016A with an interest rate of 2 percent and a final maturity date of December 15, 2026. A portion of the 2016A Bonds were issued to advance refund the General Obligation Water Revenue Bonds of 2007A.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PRIOR LAKE

Schedule of City's and Non-Employer Proportionate Share of Net Pension Liability
Public Employees General Employees Retirement Fund
Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	6/30/2015	0.0719%	\$ 3,726,231	\$ 4,189,768	88.94%	78.20%

Schedule of Employer Contributions
Public Employees General Employees Retirement Fund
Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/2015	6/30/2015	\$ 314,233	\$ 314,233	\$ -	\$ 4,189,768	7.50%

Note: The City implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This information is not available for previous fiscal years.

CITY OF PRIOR LAKE

Schedule of City's and Non-Employer Proportionate Share of Net Pension Liability
Public Employees Police and Fire Fund
Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	6/30/2015	0.2400%	\$ 2,726,962	\$ 2,244,215	121.51%	86.60%

Schedule of Employer Contributions
Public Employees Police and Fire Fund
Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/2015	6/30/2015	\$ 363,525	\$ 363,525	\$ -	\$ 2,244,215	16.20%

Note: The City implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This information is not available for previous fiscal years.

CITY OF PRIOR LAKE

Schedule of Changes in the Prior Lake Fire Relief
Association's Net Pension Asset and Related Ratios
Required Supplementary Information (Last Ten Years*)

	December 31, 2014
Total pension liability	
Service cost	\$ 106,719
Interest	148,718
Net change in total pension liability	<u>255,437</u>
Total pension liability – beginning	<u>2,481,307</u>
Total pension liability – ending	<u><u>\$ 2,736,744</u></u>
Plan fiduciary net position	
Contributions (state and local)	\$ 215,194
Net investment income	154,856
Administrative costs	<u>(6,647)</u>
Net change in plan fiduciary net position	363,403
Total pension liability – beginning	<u>3,301,229</u>
Total pension liability – ending	<u><u>\$ 3,664,632</u></u>
Net pension liability (asset) – ending	<u><u>\$ (927,888)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	<u><u>133.90%</u></u>

Schedule of Employer Contributions
Prior Lake Fire Relief Association
Required Supplementary Information (Last Ten Years*)
Year Ended December 31, 2015

City Fiscal Year-End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Voluntary City Contribution
12/31/15	\$ 209,000	\$ 209,000	\$ –	\$ 20,000

*This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

CITY OF PRIOR LAKE

Other Post-Employment Benefits Plan
Schedule of Funding Progress

<u>Fiscal Year Ended December 31,</u>	<u>Actuarial Valuation Date – January 1,</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Plan Assets</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Payroll</u>
2014	2014	\$ 753,525	\$ –	\$ 753,525	– %	\$ 5,840,769	12.9 %

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SUPPLEMENTAL INFORMATION

CITY OF PRIOR LAKE

Nonmajor Governmental Funds
 Combining Balance Sheet
 as of December 31, 2015

	Special Revenue	Capital Projects	Total
Assets			
Cash and investments	\$ 1,078,850	\$ 5,945,123	\$ 7,023,973
Cash held in escrow	25,000	768,868	793,868
Receivables			
Delinquent taxes	1,931	967	2,898
Accounts	47,264	28,613	75,877
Special assessments			
Deferred	-	24,346	24,346
Other (Green Acres)	-	1,403	1,403
Due from other governmental agencies	5,922	1,261	7,183
Total assets	<u>\$ 1,158,967</u>	<u>\$ 6,770,581</u>	<u>\$ 7,929,548</u>
Liabilities			
Accounts and contracts payable	\$ 210,529	\$ 664,855	\$ 875,384
Accrued salaries and employee benefits payable	4,135	-	4,135
Due to other governmental agencies	539	-	539
Deposits payable	25,000	-	25,000
Unearned revenue	33,750	-	33,750
Total liabilities	<u>273,953</u>	<u>664,855</u>	<u>938,808</u>
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	1,931	967	2,898
Unavailable revenue from special assessments	-	25,749	25,749
Total deferred inflows of resources	<u>1,931</u>	<u>26,716</u>	<u>28,647</u>
Fund balances			
Restricted	215,594	955,355	1,170,949
Assigned	667,489	5,123,655	5,791,144
Total fund balances	<u>883,083</u>	<u>6,079,010</u>	<u>6,962,093</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,158,967</u>	<u>\$ 6,770,581</u>	<u>\$ 7,929,548</u>

CITY OF PRIOR LAKE

Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Year Ended December 31, 2015

	Special Revenue	Capital Projects	Total
Revenue			
Taxes	\$ 158,731	\$ 721,884	\$ 880,615
Special assessments	-	2,883	2,883
Intergovernmental	17,165	-	17,165
Charges for services	136,281	1,079,622	1,215,903
Interest on investments	21,392	128,660	150,052
Miscellaneous			
Contributions and donations	1,555	-	1,555
Other	-	101,097	101,097
Total revenue	<u>335,124</u>	<u>2,034,146</u>	<u>2,369,270</u>
Expenditures			
Current			
General government	-	70,716	70,716
Culture and recreation	84,098	-	84,098
Economic development	158,570	-	158,570
Capital outlay	<u>235,177</u>	<u>3,651,664</u>	<u>3,886,841</u>
Total expenditures	<u>477,845</u>	<u>3,722,380</u>	<u>4,200,225</u>
Excess (deficiency) of revenues over expenditures	(142,721)	(1,688,234)	(1,830,955)
Other financing sources (uses)			
Transfers in	-	191,000	191,000
Transfers out	(62,356)	(1,762,200)	(1,824,556)
Sale of assets	-	6,240	6,240
Total other financing sources (uses)	<u>(62,356)</u>	<u>(1,564,960)</u>	<u>(1,627,316)</u>
Net change in fund balances	(205,077)	(3,253,194)	(3,458,271)
Fund balances			
Beginning of year	<u>1,088,160</u>	<u>9,332,204</u>	<u>10,420,364</u>
End of year	<u>\$ 883,083</u>	<u>\$ 6,079,010</u>	<u>\$ 6,962,093</u>

CITY OF PRIOR LAKE

Nonmajor Special Revenue Funds
 Combining Balance Sheet
 as of December 31, 2015

	Capital Park	ED Revolving Loan	Revolving Loan
Assets			
Cash and investments	\$ 652,976	\$ 120,832	\$ 93,833
Cash held in escrow	-	-	-
Receivables			
Delinquent taxes	-	-	-
Accounts	1,493	523	406
Due from other governmental agencies	-	-	-
	<u>654,469</u>	<u>121,355</u>	<u>94,239</u>
Total assets	<u>\$ 654,469</u>	<u>\$ 121,355</u>	<u>\$ 94,239</u>
Liabilities			
Accounts and contracts payable	\$ 203,859	\$ -	\$ -
Accrued salaries and employee benefits payable	-	-	-
Due to other governmental agencies	-	-	-
Deposits payable	-	-	-
Unearned revenue	33,750	-	-
Total liabilities	<u>237,609</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	-	-	-
Fund balances			
Restricted for economic development	-	121,355	94,239
Assigned for capital improvements	416,860	-	-
Assigned for development	-	-	-
Assigned for communications	-	-	-
Total fund balances	<u>416,860</u>	<u>121,355</u>	<u>94,239</u>
	<u>\$ 654,469</u>	<u>\$ 121,355</u>	<u>\$ 94,239</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 654,469</u>	<u>\$ 121,355</u>	<u>\$ 94,239</u>

Cable Franchise	EDA	Total
\$ 71,225	\$ 139,984	\$ 1,078,850
25,000	–	25,000
–	1,931	1,931
–	44,842	47,264
–	5,922	5,922
<u>\$ 96,225</u>	<u>\$ 192,679</u>	<u>\$ 1,158,967</u>
\$ 4,540	\$ 2,130	\$ 210,529
–	4,135	4,135
–	539	539
25,000	–	25,000
–	–	33,750
<u>29,540</u>	<u>6,804</u>	<u>273,953</u>
–	1,931	1,931
–	–	215,594
–	–	416,860
–	183,944	183,944
66,685	–	66,685
<u>66,685</u>	<u>183,944</u>	<u>883,083</u>
<u>\$ 96,225</u>	<u>\$ 192,679</u>	<u>\$ 1,158,967</u>

CITY OF PRIOR LAKE

Nonmajor Special Revenue Funds
 Combining Statement of Revenues, Expenditures,
 and Changes in Fund Balances
 Year Ended December 31, 2015

	<u>Capital Park</u>	<u>ED Revolving Loan</u>	<u>Revolving Loan</u>
Revenues			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Charges for services	123,710	-	-
Interest on investments	14,104	2,417	1,877
Miscellaneous			
Contributions and donations	1,555	-	-
Total revenues	<u>139,369</u>	<u>2,417</u>	<u>1,877</u>
Expenditures			
Current			
Culture and recreation	84,098	-	-
Economic development	-	-	-
Capital outlay	<u>229,647</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>313,745</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(174,376)	2,417	1,877
Other financing uses			
Transfers out	<u>(62,356)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(236,732)	2,417	1,877
Fund balances			
Beginning of year	<u>653,592</u>	<u>118,938</u>	<u>92,362</u>
End of year	<u>\$ 416,860</u>	<u>\$ 121,355</u>	<u>\$ 94,239</u>

<u>Cable Franchise</u>	<u>EDA</u>	<u>Total</u>
\$ -	\$ 158,731	\$ 158,731
-	17,165	17,165
5,133	7,438	136,281
-	2,994	21,392
-	-	1,555
5,133	186,328	335,124
-	-	84,098
-	158,570	158,570
4,540	990	235,177
4,540	159,560	477,845
593	26,768	(142,721)
-	-	(62,356)
593	26,768	(205,077)
66,092	157,176	1,088,160
\$ 66,685	\$ 183,944	\$ 883,083

CITY OF PRIOR LAKE

Nonmajor Capital Projects Funds
 Combining Balance Sheet
 as of December 31, 2015

	<u>Tax Increment</u>	<u>Revolving Equipment</u>	<u>Trunk Reserve</u>
Assets			
Cash and investments	\$ 77,243	\$ 859,133	\$ 1,581,894
Cash held in escrow	-	-	-
Receivables			
Delinquent taxes	-	-	-
Accounts	943	6,049	9,607
Special assessments			
Deferred	-	-	12,460
Other (Green Acres)	-	-	1,403
Due from other governmental agencies	-	1,261	-
Total assets	<u>\$ 78,186</u>	<u>\$ 866,443</u>	<u>\$ 1,605,364</u>
Liabilities			
Accounts and contracts payable	\$ -	\$ 8,503	\$ -
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	-	-	-
Unavailable revenue from special assessments	-	-	13,863
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>13,863</u>
Fund balances			
Restricted for tax increment	78,186	-	-
Restricted for forfeiture sales	-	143,489	-
Restricted for future capital improvements	-	-	-
Assigned for capital improvements	-	714,451	1,591,501
Total fund balances	<u>78,186</u>	<u>857,940</u>	<u>1,591,501</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 78,186</u>	<u>\$ 866,443</u>	<u>\$ 1,605,364</u>

<u>Street Oversizing</u>	<u>Water Storage</u>	<u>Tax Increment 1-3 Lakefront</u>	<u>Tax Increment 3-1 Creekside</u>
\$ 680,029	\$ 1,148,660	\$ 130,404	\$ 117,036
-	-	-	-
-	-	967	-
3,256	2,624	490	315
4,886	7,000	-	-
-	-	-	-
-	-	-	-
<u>\$ 688,171</u>	<u>\$ 1,158,284</u>	<u>\$ 131,861</u>	<u>\$ 117,351</u>
\$ -	\$ -	\$ 68,372	\$ -
-	-	967	-
4,886	7,000	-	-
<u>4,886</u>	<u>7,000</u>	<u>967</u>	<u>-</u>
-	-	62,522	117,351
-	-	-	-
-	-	-	-
683,285	1,151,284	-	-
<u>683,285</u>	<u>1,151,284</u>	<u>62,522</u>	<u>117,351</u>
<u>\$ 688,171</u>	<u>\$ 1,158,284</u>	<u>\$ 131,861</u>	<u>\$ 117,351</u>

(continued)

CITY OF PRIOR LAKE

Nonmajor Capital Projects Funds
 Combining Balance Sheet (continued)
 as of December 31, 2015

	Tax Increment 5-1 Premiere	Tax Increment 6-1 Shepard's Path	Tax Increment 1-4 River Vet
Assets			
Cash and investments	\$ 11,459	\$ 357,181	\$ 3,829
Cash held in escrow	-	-	-
Receivables			
Delinquent taxes	-	-	-
Accounts	18	639	(8)
Special assessments			
Deferred	-	-	-
Other (Green Acres)	-	-	-
Due from other governmental agencies	-	-	-
Total assets	\$ 11,477	\$ 357,820	\$ 3,821
Liabilities			
Accounts and contracts payable	\$ 5,726	\$ 130,514	\$ 3,598
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	-	-	-
Unavailable revenue from special assessments	-	-	-
Total deferred inflows of resources	-	-	-
Fund balances			
Restricted for tax increment	5,751	227,306	223
Restricted for forfeiture sales	-	-	-
Restricted for future capital improvements	-	-	-
Assigned for capital improvements	-	-	-
Total fund balances	5,751	227,306	223
Total liabilities, deferred inflows of resources, and fund balances	\$ 11,477	\$ 357,820	\$ 3,821

<u>Revolving Park Equipment</u>	<u>Facility Management</u>	<u>Total</u>
\$ 387,904	\$ 590,351	\$ 5,945,123
-	768,868	768,868
-	-	967
1,504	3,176	28,613
-	-	24,346
-	-	1,403
-	-	1,261
<u>\$ 389,408</u>	<u>\$ 1,362,395</u>	<u>\$ 6,770,581</u>
\$ -	\$ 448,142	\$ 664,855
-	-	967
-	-	25,749
<u>-</u>	<u>-</u>	<u>26,716</u>
-	-	491,339
-	-	143,489
-	320,527	320,527
389,408	593,726	5,123,655
<u>389,408</u>	<u>914,253</u>	<u>6,079,010</u>
<u>\$ 389,408</u>	<u>\$ 1,362,395</u>	<u>\$ 6,770,581</u>

CITY OF PRIOR LAKE

Nonmajor Capital Projects Funds
 Combining Statement of Revenues, Expenditures,
 and Changes in Fund Balances
 Year Ended December 31, 2015

	<u>Tax Increment</u>	<u>Revolving Equipment</u>	<u>Trunk Reserve</u>
Revenues			
Taxes	\$ -	\$ 250,033	\$ -
Special assessments	-	-	-
Charges for services	8,000	-	713,406
Interest (losses) on investments	1,528	21,391	41,806
Miscellaneous			
Other	-	101,097	-
Total revenues	<u>9,528</u>	<u>372,521</u>	<u>755,212</u>
Expenditures			
Current			
General government	294	70,422	-
Capital outlay	5,136	875,336	-
Total expenditures	<u>5,430</u>	<u>945,758</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	4,098	(573,237)	755,212
Other financing sources (uses)			
Transfers in	-	141,000	-
Transfers out	-	-	(1,352,864)
Sale of assets	-	6,240	-
Total other financing sources (uses)	<u>-</u>	<u>147,240</u>	<u>(1,352,864)</u>
Net change in fund balances	4,098	(425,997)	(597,652)
Fund balances (deficit)			
Beginning of year	<u>74,088</u>	<u>1,283,937</u>	<u>2,189,153</u>
End of year	<u>\$ 78,186</u>	<u>\$ 857,940</u>	<u>\$ 1,591,501</u>

<u>Street Oversizing</u>	<u>Water Storage</u>	<u>Tax Increment 1-3 Lakefront</u>	<u>Tax Increment 3-1 Creekside</u>
\$ -	\$ -	\$ 89,291	\$ 71,808
2,883	-	-	-
180,216	178,000	-	-
14,780	20,284	1,989	1,481
-	-	-	-
<u>197,879</u>	<u>198,284</u>	<u>91,280</u>	<u>73,289</u>
-	-	-	-
-	-	101,292	32,831
-	-	<u>101,292</u>	<u>32,831</u>
197,879	198,284	(10,012)	40,458
-	-	-	-
(302,075)	-	(25,880)	-
-	-	-	-
<u>(302,075)</u>	<u>-</u>	<u>(25,880)</u>	<u>-</u>
(104,196)	198,284	(35,892)	40,458
787,481	953,000	98,414	76,893
<u>\$ 683,285</u>	<u>\$ 1,151,284</u>	<u>\$ 62,522</u>	<u>\$ 117,351</u>

(continued)

CITY OF PRIOR LAKE

Nonmajor Capital Projects Funds
 Combining Statement of Revenues, Expenditures,
 and Changes in Fund Balances (continued)
 Year Ended December 31, 2015

	Tax Increment 5-1 Premiere	Tax Increment 6-1 Shepard's Path	Tax Increment 1-4 River Vet
Revenues			
Taxes	\$ 12,724	\$ 290,032	\$ 7,996
Special assessments	-	-	-
Charges for services	-	-	-
Interest (losses) on investments	89	3,755	(11)
Miscellaneous			
Other	-	-	-
Total revenues	<u>12,813</u>	<u>293,787</u>	<u>7,985</u>
Expenditures			
Current			
General government	-	-	-
Capital outlay	11,970	261,547	7,714
Total expenditures	<u>11,970</u>	<u>261,547</u>	<u>7,714</u>
Excess (deficiency) of revenues over expenditures	843	32,240	271
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Sale of assets	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	843	32,240	271
Fund balances (deficit)			
Beginning of year	<u>4,908</u>	<u>195,066</u>	<u>(48)</u>
End of year	<u>\$ 5,751</u>	<u>\$ 227,306</u>	<u>\$ 223</u>

<u>Revolving Park Equipment</u>	<u>Facility Management</u>	<u>Total</u>
\$ —	\$ —	\$ 721,884
—	—	2,883
—	—	1,079,622
7,896	13,672	128,660
—	—	101,097
<u>7,896</u>	<u>13,672</u>	<u>2,034,146</u>
—	—	70,716
—	2,355,838	3,651,664
<u>—</u>	<u>2,355,838</u>	<u>3,722,380</u>
7,896	(2,342,166)	(1,688,234)
—	50,000	191,000
—	(81,381)	(1,762,200)
—	—	6,240
<u>—</u>	<u>(31,381)</u>	<u>(1,564,960)</u>
7,896	(2,373,547)	(3,253,194)
<u>381,512</u>	<u>3,287,800</u>	<u>9,332,204</u>
<u>\$ 389,408</u>	<u>\$ 914,253</u>	<u>\$ 6,079,010</u>

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CITY OF PRIOR LAKE

General Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances – Budget and Actual
 Year Ended December 31, 2015

(With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015				2014
	Budgeted Amounts		Actual Amounts	Variance With Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 8,107,223	\$ 8,107,223	\$ 8,087,428	\$ (19,795)	\$ 7,364,122
Franchise taxes	595,000	595,000	604,997	9,997	594,800
Total taxes	8,702,223	8,702,223	8,692,425	(9,798)	7,958,922
Special assessments	35,000	35,000	366	(34,634)	10,798
Licenses and permits					
Business	72,920	72,920	77,870	4,950	79,620
Nonbusiness	569,825	569,825	509,594	(60,231)	503,532
Total licenses and permits	642,745	642,745	587,464	(55,281)	583,152
Intergovernmental					
Federal grants	3,500	7,882	19,806	11,924	125,971
State					
Road and bridge aid	288,000	288,000	316,827	28,827	288,204
Fire relief aid	209,000	209,000	213,941	4,941	202,136
Police aid	182,800	182,800	209,926	27,126	184,160
Other state aids	52,680	59,480	18,559	(40,921)	49,579
County and local					
Township fire and rescue aid	282,002	282,002	279,094	(2,908)	325,976
Liaison aid	45,860	45,860	23,565	(22,295)	45,860
Payment in lieu of taxes	420,000	420,000	420,000	–	400,000
Other local aids	–	72,147	72,147	–	3,853
Total intergovernmental	1,483,842	1,567,171	1,573,865	6,694	1,625,739
Charges for services					
Zoning fees	7,810	7,810	26,626	18,816	16,634
Plan check fees	291,420	291,420	233,752	(57,668)	229,070
Park fees	54,250	54,250	65,127	10,877	52,425
Project fees	300,000	300,000	273,943	(26,057)	263,929
Park program revenue	63,000	63,000	67,210	4,210	76,459
Tower leases	202,065	202,065	243,499	41,434	210,994
PEG access fees	34,000	34,000	32,952	(1,048)	33,100
Park admission/rent	23,250	23,250	29,852	6,602	21,424
Facility rental	71,520	71,520	72,757	1,237	141,260
Reports	2,300	2,300	2,846	546	2,102
Total charges for services	1,049,615	1,049,615	1,048,564	(1,051)	1,047,397

(continued)

CITY OF PRIOR LAKE

General Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances – Budget and Actual (continued)
 Year Ended December 31, 2015

(With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015			Variance With Final Budget	2014
	Budgeted Amounts		Actual		Actual
	Original	Final			
Revenues (continued)					
Fines and forfeits	–	–	1,390	1,390	127,225
Interest on investments	120,000	120,000	114,970	(5,030)	230,464
Miscellaneous					
Other	94,000	94,000	238,492	144,492	171,833
Contributions and donations	11,000	11,000	11,866	866	27,761
Developers' agreements	70,000	70,000	59,867	(10,133)	90,474
Total miscellaneous	<u>175,000</u>	<u>175,000</u>	<u>310,225</u>	<u>135,225</u>	<u>290,068</u>
Total revenues	12,208,425	12,291,754	12,329,269	37,515	11,873,765
Expenditures					
Current expenditures					
General government					
Mayor and Council					
Personal services	49,370	49,370	53,503	4,133	46,347
Supplies	300	300	42	(258)	205
Other services and charges	<u>5,720</u>	<u>5,720</u>	<u>4,987</u>	<u>(733)</u>	<u>5,459</u>
Total Mayor and Council	<u>55,390</u>	<u>55,390</u>	<u>58,532</u>	<u>3,142</u>	<u>52,011</u>
Ordinance					
Other services and charges	7,500	7,500	6,952	(548)	8,497
Administration					
Personal services	335,330	335,330	318,613	(16,717)	324,576
Supplies	2,250	2,250	5,688	3,438	3,750
Other services and charges	<u>47,179</u>	<u>47,179</u>	<u>51,241</u>	<u>4,062</u>	<u>47,934</u>
Total administration	<u>384,759</u>	<u>384,759</u>	<u>375,542</u>	<u>(9,217)</u>	<u>376,260</u>
Boards and commissions					
Personal services	9,689	9,689	9,258	(431)	9,043
Other services and charges	<u>650</u>	<u>650</u>	<u>879</u>	<u>229</u>	<u>346</u>
Total boards and commissions	<u>10,339</u>	<u>10,339</u>	<u>10,137</u>	<u>(202)</u>	<u>9,389</u>
Election					
Personal services	–	–	–	–	11,621
Supplies	–	–	–	–	2,141
Other services and charges	<u>75,000</u>	<u>75,000</u>	<u>84,750</u>	<u>9,750</u>	<u>1,398</u>
Total election	<u>75,000</u>	<u>75,000</u>	<u>84,750</u>	<u>9,750</u>	<u>15,160</u>

(continued)

CITY OF PRIOR LAKE

General Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances – Budget and Actual (continued)
 Year Ended December 31, 2015

(With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015			Variance With Final Budget	2014
	Budgeted Amounts		Actual		Actual
	Original	Final			
Expenditures (continued)					
Current expenditures (continued)					
General government (continued)					
Finance					
Personal services	418,654	418,654	396,539	(22,115)	406,089
Supplies	2,225	2,225	2,297	72	2,122
Other services and charges	13,805	13,805	12,418	(1,387)	18,389
Total finance	<u>434,684</u>	<u>434,684</u>	<u>411,254</u>	<u>(23,430)</u>	<u>426,600</u>
Auditing					
Other services and charges	29,950	29,950	30,748	798	25,115
Assessing					
Other services and charges	152,250	152,250	152,155	(95)	134,621
Legal services					
Other services and charges	215,000	215,000	233,507	18,507	384,657
Personnel					
Personal services	132,433	132,433	55,315	(77,118)	129,616
Supplies	250	250	323	73	246
Other services and charges	27,538	27,538	33,297	5,759	22,467
Total personnel	<u>160,221</u>	<u>160,221</u>	<u>88,935</u>	<u>(71,286)</u>	<u>152,329</u>
Communications					
Personal services	104,251	104,251	72,801	(31,450)	98,482
Supplies	750	750	92	(658)	450
Other services and charges	17,300	17,300	15,550	(1,750)	23,560
Total communications	<u>122,301</u>	<u>122,301</u>	<u>88,443</u>	<u>(33,858)</u>	<u>122,492</u>
Community development					
Personal services	277,393	277,393	286,768	9,375	243,058
Supplies	2,150	2,150	2,556	406	942
Other services and charges	28,450	28,450	5,340	(23,110)	21,663
Total community development	<u>307,993</u>	<u>307,993</u>	<u>294,664</u>	<u>(13,329)</u>	<u>265,663</u>

(continued)

CITY OF PRIOR LAKE

General Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances – Budget and Actual (continued)
 Year Ended December 31, 2015

(With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015			Variance With Final Budget	2014
	Budgeted Amounts		Actual		Actual
	Original	Final			
Expenditures (continued)					
Current expenditures (continued)					
General government (continued)					
Technology					
Personal services	131,171	131,171	131,814	643	101,266
Supplies	1,040	1,040	578	(462)	5,949
Other services and charges	108,622	108,622	107,494	(1,128)	254,040
Total technology	240,833	240,833	239,886	(947)	361,255
Buildings and plant					
Personal services	71,409	71,409	74,214	2,805	50,889
Supplies	5,614	5,614	5,779	165	8,926
Other services and charges	427,934	427,934	412,974	(14,960)	422,935
Total buildings and plant	504,957	504,957	492,967	(11,990)	482,750
Total general government	2,701,177	2,701,177	2,568,472	(132,705)	2,816,799
Public safety					
Police					
Personal services	3,083,623	3,083,623	3,090,015	6,392	3,096,561
Supplies	117,047	117,047	115,158	(1,889)	119,121
Other services and charges	164,114	164,114	146,611	(17,503)	169,095
Total police	3,364,784	3,364,784	3,351,784	(13,000)	3,384,777
Fire and rescue					
Personal services	383,428	383,428	399,781	16,353	352,874
Supplies	92,177	92,177	62,952	(29,225)	74,507
Other services and charges	367,250	408,250	418,185	9,935	397,076
Total fire and rescue	842,855	883,855	880,918	(2,937)	824,457
Building inspections					
Personal services	558,114	558,114	538,616	(19,498)	519,796
Supplies	13,014	13,014	8,648	(4,366)	5,859
Other services and charges	6,315	6,315	6,407	92	8,188
Total building inspections	577,443	577,443	553,671	(23,772)	533,843
Emergency management					
Other services and charges	10,025	10,025	9,577	(448)	4,745
Animal control					
Other services and charges	25,257	25,257	25,200	(57)	25,200
Total public safety	4,820,364	4,861,364	4,821,150	(40,214)	4,773,022

(continued)

CITY OF PRIOR LAKE

General Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances – Budget and Actual (continued)
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015			Variance With Final Budget	2014
	Budgeted Amounts		Actual		Actual
	Original	Final			
Expenditures (continued)					
Current expenditures (continued)					
Public works					
Engineering					
Personal services	337,087	337,087	343,925	6,838	310,802
Supplies	11,580	11,580	9,087	(2,493)	7,705
Other services and charges	31,480	31,480	8,653	(22,827)	19,192
Total engineering	<u>380,147</u>	<u>380,147</u>	<u>361,665</u>	<u>(18,482)</u>	<u>337,699</u>
Central garage					
Personal services	178,223	178,223	178,660	437	171,059
Supplies	168,545	168,545	123,596	(44,949)	179,214
Other services and charges	23,023	23,023	30,196	7,173	46,601
Total central garage	<u>369,791</u>	<u>369,791</u>	<u>332,452</u>	<u>(37,339)</u>	<u>396,874</u>
Streets					
Personal services	352,581	354,146	331,049	(23,097)	331,389
Supplies	253,600	257,374	231,351	(26,023)	260,549
Other services and charges	740,140	851,140	821,792	(29,348)	547,911
Total streets	<u>1,346,321</u>	<u>1,462,660</u>	<u>1,384,192</u>	<u>(78,468)</u>	<u>1,139,849</u>
Total public works	2,096,259	2,212,598	2,078,309	(134,289)	1,874,422
Culture and recreation					
Recreation					
Personal services	272,487	273,879	268,297	(5,582)	300,603
Supplies	60,888	66,695	60,447	(6,248)	80,143
Other services and charges	26,002	26,002	17,670	(8,332)	25,312
Total recreation	<u>359,377</u>	<u>366,576</u>	<u>346,414</u>	<u>(20,162)</u>	<u>406,058</u>
Parks					
Personal services	821,636	858,094	847,810	(10,284)	847,275
Supplies	186,110	206,703	184,303	(22,400)	181,165
Other services and charges	152,159	181,383	160,107	(21,276)	178,615
Total parks	<u>1,159,905</u>	<u>1,246,180</u>	<u>1,192,220</u>	<u>(53,960)</u>	<u>1,207,055</u>
Libraries					
Supplies	3,743	3,743	3,597	(146)	3,882
Other services and charges	63,017	63,017	57,840	(5,177)	67,995
Total libraries	<u>66,760</u>	<u>66,760</u>	<u>61,437</u>	<u>(5,323)</u>	<u>71,877</u>

(continued)

CITY OF PRIOR LAKE

General Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances – Budget and Actual (continued)
 Year Ended December 31, 2015

(With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015			Variance With Final Budget	2014
	Budgeted Amounts		Actual		Actual
	Original	Final			
Expenditures (continued)					
Current expenditures (continued)					
Culture and recreation					
Natural resources					
Personal services	35,850	–	–	–	35,036
Supplies	24,750	–	–	–	5,845
Other services and charges	19,224	–	–	–	25,134
Total natural resources	<u>79,824</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>66,015</u>
Total culture and recreation	<u>1,665,866</u>	<u>1,679,516</u>	<u>1,600,071</u>	<u>(79,445)</u>	<u>1,751,005</u>
Economic development					
Other services and charges	<u>–</u>	<u>8,500</u>	<u>6,213</u>	<u>(2,287)</u>	<u>–</u>
Total current expenditures	<u>11,283,666</u>	<u>11,463,155</u>	<u>11,074,215</u>	<u>(388,940)</u>	<u>11,215,248</u>
Capital outlay					
General government					
Technology	23,163	66,058	81,353	15,295	258,955
Buildings and plant	8,500	8,500	6,516	(1,984)	12,462
Public safety					
Police	–	–	–	–	1,000
Fire and rescue	41,000	–	–	–	7,506
Culture and recreation					
Parks	171,771	307,071	145,486	(161,585)	216,138
Economic development					
Contingency					
FEMA costs	–	–	–	–	92,174
Economic development	–	–	–	–	115,000
Total capital outlay	<u>244,434</u>	<u>381,629</u>	<u>233,355</u>	<u>(148,274)</u>	<u>703,235</u>
Total expenditures	<u>11,528,100</u>	<u>11,844,784</u>	<u>11,307,570</u>	<u>(537,214)</u>	<u>11,918,483</u>
Excess (deficiency) of revenues over expenditures	680,325	446,970	1,021,699	574,729	(44,718)

(continued)

CITY OF PRIOR LAKE

General Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances – Budget and Actual (continued)
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015			Variance With Final Budget	2014
	Budgeted Amounts		Actual		Actual
	Original	Final			
Other financing sources (uses)					
Transfers in	355,520	355,520	355,520	–	481,762
Transfers out	(1,035,845)	(1,035,845)	(1,036,245)	(400)	(1,091,655)
Sale of assets	–	–	7,130	7,130	–
Total other financing sources (uses)	<u>(680,325)</u>	<u>(680,325)</u>	<u>(673,595)</u>	<u>6,730</u>	<u>(609,893)</u>
Net change in fund balances	<u>\$ –</u>	<u>\$ (233,355)</u>	348,104	<u>\$ 581,459</u>	(654,611)
Fund balances					
Beginning of year			<u>5,776,647</u>		<u>6,431,258</u>
End of year			<u>\$ 6,124,751</u>		<u>\$ 5,776,647</u>

CITY OF PRIOR LAKE

Debt Service Funds
Balance Sheet by Account
as of December 31, 2015

	Park Referendum	City Hall 2005	Fire Station #2	Water Treatment Plant
Assets				
Cash and investments	\$ -	\$ 9,340	\$ -	\$ -
Cash held in escrow	-	-	-	5,309,198
Receivables				
Accounts	-	117	-	-
Special assessments				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Other (Green Acres)	-	-	-	-
Due from other governmental agencies	-	2,959	-	-
Total assets	\$ -	\$ 12,416	\$ -	\$ 5,309,198
Liabilities				
Accounts and contracts payable	\$ 175	\$ 1,175	\$ 88	\$ 175
Due to other funds	-	-	-	-
Total liabilities	175	1,175	88	175
Deferred inflows of resources				
Unavailable revenue from special assessments	-	-	-	-
Fund balances (deficit)				
Restricted for debt service	-	11,241	-	5,309,023
Unassigned (deficit in restricted balance)	(175)	-	(88)	-
Total fund balances (deficit)	(175)	11,241	(88)	5,309,023
Total liabilities, deferred inflows of resources, and fund balances	\$ -	\$ 12,416	\$ -	\$ 5,309,198

Tax Increment 2004	Breezy Point	Fish Point	CSAH 82
\$ 27,022	\$ 31,025	\$ -	\$ 30,737
-	-	-	-
115	676	-	117
-	-	-	-
-	-	30,111	-
-	-	692,597	-
-	-	-	751
<u>\$ 27,137</u>	<u>\$ 31,701</u>	<u>\$ 722,708</u>	<u>\$ 31,605</u>
\$ 89	\$ -	\$ -	\$ -
-	-	-	-
89	-	-	-
-	-	722,708	-
27,048	31,701	-	31,605
-	-	-	-
<u>27,048</u>	<u>31,701</u>	<u>-</u>	<u>31,605</u>
<u>\$ 27,137</u>	<u>\$ 31,701</u>	<u>\$ 722,708</u>	<u>\$ 31,605</u>

(continued)

CITY OF PRIOR LAKE

Debt Service Funds
 Balance Sheet by Account (continued)
 as of December 31, 2015

	Street Reconstruction 2007	Brooksville Hills 2008	Brooksville Hills II/Maple Glen 2nd	CR 12 and 2010 Reconstruction
Assets				
Cash and investments	\$ 31,328	\$ 66,784	\$ 59,233	\$ 55,865
Cash held in escrow	-	-	-	-
Receivables				
Accounts	157	1,009	896	538
Special assessments				
Delinquent	-	1,125	-	-
Deferred	-	105,770	94,232	47,511
Other (Green Acres)	-	-	-	-
Due from other governmental agencies	900	457	703	549
Total assets	\$ 32,385	\$ 175,145	\$ 155,064	\$ 104,463
Liabilities				
Accounts and contracts payable	\$ 175	\$ -	\$ 176	\$ 176
Due to other funds	-	-	-	-
Total liabilities	175	-	176	176
Deferred inflows of resources				
Unavailable revenue from special assessments	-	106,895	94,232	47,511
Fund balances (deficit)				
Restricted for debt service	32,210	68,250	60,656	56,776
Unassigned (deficit in restricted balance)	-	-	-	-
Total fund balances (deficit)	32,210	68,250	60,656	56,776
Total liabilities, deferred inflows of resources, and fund balances	\$ 32,385	\$ 175,145	\$ 155,064	\$ 104,463

<u>Boudin Phase I</u>	<u>Boudin Phase II</u>	<u>Welcome, CR 12, Sunset</u>	<u>CSAH 44, Crest, Maplewood</u>
\$ 285,582	\$ 208,640	\$ 535,743	\$ 210,822
-	-	-	-
1,317	875	3,503	(23)
-	-	10,912	443
234,439	230,057	663,920	82,076
-	-	25,656	-
842	1,057	12,989	1,213
<u>\$ 522,180</u>	<u>\$ 440,629</u>	<u>\$ 1,252,723</u>	<u>\$ 294,531</u>
\$ 88	\$ 88	\$ 174	\$ 87
-	-	-	-
88	88	174	87
234,439	230,057	700,489	82,520
287,653	210,484	552,060	211,924
-	-	-	-
<u>287,653</u>	<u>210,484</u>	<u>552,060</u>	<u>211,924</u>
<u>\$ 522,180</u>	<u>\$ 440,629</u>	<u>\$ 1,252,723</u>	<u>\$ 294,531</u>

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CITY OF PRIOR LAKE

Debt Service Funds
 Balance Sheet by Account (continued)
 as of December 31, 2015

	GESP Lease	Street Reconstruction 2015	TH 13, 150th Street Reconstruction	Total
Assets				
Cash and investments	\$ -	\$ 213,066	\$ 458,936	\$ 2,224,123
Cash held in escrow	-	-	-	5,309,198
Receivables				
Accounts	67,119	-	111	76,527
Special assessments				
Delinquent	-	-	-	12,480
Deferred	-	1,290,902	-	2,779,018
Other (Green Acres)	-	-	-	718,253
Due from other governmental agencies	-	-	-	22,420
Total assets	\$ 67,119	\$ 1,503,968	\$ 459,047	\$ 11,142,019
Liabilities				
Accounts and contracts payable	\$ -	\$ 670	\$ 169	\$ 3,505
Due to other funds	68,926	-	-	68,926
Total liabilities	68,926	670	169	72,431
Deferred inflows of resources				
Unavailable revenue from special assessments	\$ -	\$ 1,290,901	\$ -	\$ 3,509,752
Fund balances (deficit)				
Restricted for debt service	-	212,397	458,878	7,561,906
Unassigned (deficit in restricted balance)	(1,807)	-	-	(2,070)
Total fund balances (deficit)	(1,807)	212,397	458,878	7,559,836
Total liabilities, deferred inflows of resources, and fund balances	\$ 67,119	\$ 1,503,968	\$ 459,047	\$ 11,142,019

CITY OF PRIOR LAKE

Debt Service Funds
 Schedule of Revenues, Expenditures,
 and Changes in Fund Balances
 Year Ended December 31, 2015

	Park Referendum	City Hall 2005	Fire Station #2	Water Treatment Plant
Revenues				
Taxes	\$ -	\$ 586,910	\$ -	\$ -
Special assessments	-	-	-	-
Interest (losses) on investments	-	1,581	-	(7,736)
Miscellaneous	-	-	-	-
Total revenues	<u>-</u>	<u>588,491</u>	<u>-</u>	<u>(7,736)</u>
Expenditures				
Debt service				
Principal	710,000	395,000	120,000	220,000
Interest and other	<u>111,400</u>	<u>194,478</u>	<u>95,106</u>	<u>482,607</u>
Total expenditures	<u>821,400</u>	<u>589,478</u>	<u>215,106</u>	<u>702,607</u>
Excess (deficiency) of revenues over expenditures	(821,400)	(987)	(215,106)	(710,343)
Other financing sources (uses)				
Debt issued	-	-	-	-
Refunding debt issued	-	-	-	5,360,000
Premium on debt issued	-	-	-	143,647
Transfers in	<u>821,225</u>	<u>-</u>	<u>215,018</u>	<u>515,719</u>
Total other financing sources (uses)	<u>821,225</u>	<u>-</u>	<u>215,018</u>	<u>6,019,366</u>
Net change in fund balances	(175)	(987)	(88)	5,309,023
Fund balances (deficit)				
Beginning of year	<u>-</u>	<u>12,228</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ (175)</u>	<u>\$ 11,241</u>	<u>\$ (88)</u>	<u>\$ 5,309,023</u>

Tax Increment 2004	Breezy Point	Fish Point	CSAH 82
\$ -	\$ -	\$ -	\$ 148,875
-	441	-	-
514	494	-	(52)
-	-	-	-
<u>514</u>	<u>935</u>	<u>-</u>	<u>148,823</u>
20,000	-	-	135,000
<u>5,968</u>	<u>-</u>	<u>-</u>	<u>13,805</u>
<u>25,968</u>	<u>-</u>	<u>-</u>	<u>148,805</u>
(25,454)	935	-	18
-	-	-	-
-	-	-	-
-	-	-	-
25,880	-	-	-
<u>25,880</u>	<u>-</u>	<u>-</u>	<u>-</u>
426	935	-	18
<u>26,622</u>	<u>30,766</u>	<u>-</u>	<u>31,587</u>
<u>\$ 27,048</u>	<u>\$ 31,701</u>	<u>\$ -</u>	<u>\$ 31,605</u>

(continued)

CITY OF PRIOR LAKE

Debt Service Funds
 Schedule of Revenues, Expenditures,
 and Changes in Fund Balances (continued)
 Year Ended December 31, 2015

	Street Reconstruction 2007	Brooksville Hills 2008	Brooksville Hills II/Maple Glen 2nd	CR 12 and 2010 Reconstruction
Revenues				
Taxes	\$ 178,459	\$ 90,661	\$ 139,332	\$ 108,793
Special assessments	-	52,045	37,418	16,515
Interest on investments	1,092	1,566	2,335	1,885
Miscellaneous	-	-	-	-
Total revenues	<u>179,551</u>	<u>144,272</u>	<u>179,085</u>	<u>127,193</u>
Expenditures				
Debt service				
Principal	155,000	120,000	175,000	120,000
Interest and other	<u>19,574</u>	<u>12,375</u>	<u>27,125</u>	<u>21,812</u>
Total expenditures	<u>174,574</u>	<u>132,375</u>	<u>202,125</u>	<u>141,812</u>
Excess (deficiency) of revenues over expenditures	4,977	11,897	(23,040)	(14,619)
Other financing sources (uses)				
Debt issued	-	-	-	-
Refunding debt issued	-	-	-	-
Premium on debt issued	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	4,977	11,897	(23,040)	(14,619)
Fund balances (deficit)				
Beginning of year	<u>27,233</u>	<u>56,353</u>	<u>83,696</u>	<u>71,395</u>
End of year	<u>\$ 32,210</u>	<u>\$ 68,250</u>	<u>\$ 60,656</u>	<u>\$ 56,776</u>

<u>Boudin Phase I</u>	<u>Boudin Phase II</u>	<u>Welcome, CR 12, Sunset</u>	<u>CSAH 44, Crest, Maplewood</u>
\$ 167,007	\$ 200,408	\$ 15,269	\$ 240,490
48,407	58,076	319,652	13,151
7,037	5,008	14,184	1,648
—	—	—	—
<u>222,451</u>	<u>263,492</u>	<u>349,105</u>	<u>255,289</u>
210,000	220,000	325,000	185,000
31,533	38,756	99,557	57,338
<u>241,533</u>	<u>258,756</u>	<u>424,557</u>	<u>242,338</u>
(19,082)	4,736	(75,452)	12,951
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	135,076
<u>—</u>	<u>—</u>	<u>—</u>	<u>135,076</u>
(19,082)	4,736	(75,452)	148,027
306,735	205,748	627,512	63,897
<u>\$ 287,653</u>	<u>\$ 210,484</u>	<u>\$ 552,060</u>	<u>\$ 211,924</u>

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CITY OF PRIOR LAKE

Debt Service Funds
 Schedule of Revenues, Expenditures,
 and Changes in Fund Balances (continued)
 Year Ended December 31, 2015

	GESP Lease	Street Reconstruction 2015	TH 13, 150th Street Reconstruction	Total
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ 1,876,204
Special assessments	-	154,243	437,870	1,137,818
Interest on investments	-	5,093	2,338	36,987
Miscellaneous	67,119	-	-	67,119
Total revenues	<u>67,119</u>	<u>159,336</u>	<u>440,208</u>	<u>3,118,128</u>
Expenditures				
Debt service				
Principal	93,474	-	-	3,203,474
Interest and other	<u>56,833</u>	<u>72,738</u>	<u>25,437</u>	<u>1,366,442</u>
Total expenditures	<u>150,307</u>	<u>72,738</u>	<u>25,437</u>	<u>4,569,916</u>
Excess (deficiency) of revenues over expenditures	(83,188)	86,598	414,771	(1,451,788)
Other financing sources (uses)				
Debt issued	-	125,799	44,107	169,906
Refunding debt issued	-	-	-	5,360,000
Premium on debt issued	-	-	-	143,647
Transfers in	81,381	-	-	1,794,299
Total other financing sources (uses)	<u>81,381</u>	<u>125,799</u>	<u>44,107</u>	<u>7,467,852</u>
Net change in fund balances	(1,807)	212,397	458,878	6,016,064
Fund balances (deficit)				
Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,543,772</u>
End of year	<u>\$ (1,807)</u>	<u>\$ 212,397</u>	<u>\$ 458,878</u>	<u>\$ 7,559,836</u>

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CITY OF PRIOR LAKE

Summary Financial Report
 Revenues and Expenditures for General Operations
 Governmental Funds
 Years Ended December 31, 2015 and 2014

	Total		Percent Increase (Decrease)
	2015	2014	
Revenues			
Taxes	\$ 10,844,247	\$ 9,924,277	9.3%
Franchise taxes	604,997	594,800	1.7%
Special assessments	1,141,067	616,960	84.9%
Licenses and permits	587,464	580,112	1.3%
Intergovernmental	2,882,091	2,038,495	41.4%
Charges for services	2,493,523	2,771,929	(10.0%)
Fines and forfeits	1,390	127,225	(98.9%)
Interest (losses) on investments	376,624	730,981	(48.5%)
Miscellaneous	479,996	350,339	37.0%
	<u>\$ 19,411,399</u>	<u>\$ 17,735,118</u>	9.5%
Total revenues			
Per capita	\$ 775	\$ 712	8.8%
Expenditures			
Current			
General government	\$ 2,639,188	\$ 2,813,759	(6.2%)
Public safety	4,821,150	4,732,024	1.9%
Public works	2,078,309	1,874,422	10.9%
Culture and recreation	1,684,169	1,768,519	(4.8%)
Economic development	164,783	115,437	42.7%
Capital outlay	14,205,764	6,338,290	124.1%
Debt service			
Principal	3,203,474	3,185,000	0.6%
Interest and other charges	1,484,684	1,256,059	18.2%
	<u>\$ 30,281,521</u>	<u>\$ 22,083,510</u>	37.1%
Total disbursements			
Per capita	\$ 1,209	\$ 886	36.5%
	<u>\$ 43,020,000</u>	<u>\$ 33,640,000</u>	27.9%
Total long-term indebtedness			
Per capita	\$ 1,717	\$ 1,350	27.2%
	<u>\$ 6,124,751</u>	<u>\$ 5,776,647</u>	6.0%
General Fund balance – December 31			
Per capita	\$ 245	\$ 232	5.6%

The purpose of this report is to provide a summary of financial information concerning the City to interested citizens. The complete financial statements may be examined at City Hall, 4646 Dakota Street Southeast, Prior Lake, Minnesota 55372-1714. Questions about this report should be directed to the Finance Director at (952) 447-9841.

CITY OF PRIOR LAKE

Combined Schedule of Indebtedness
for the Year Ended December 31, 2015

	Interest Rate	Issue Date	Final Maturity Date
Bonded indebtedness			
G.O. special assessment bonds			
G.O. Improvement Bonds of 2009A	1.10–3.50 %	05/15/2009	12/15/2019
G.O. Improvement Bonds of 2010A	0.80–3.20	05/26/2010	12/15/2020
G.O. Improvement Bonds of 2011A	1.80–2.50	08/31/2011	12/15/2021
G.O. Improvement Bonds of 2011B	2.00–2.35	12/14/2011	12/15/2022
G.O. Improvement Bonds of 2013A	2.00–2.65	08/15/2013	12/15/2023
G.O. Improvement Bonds of 2014A	2.00–2.50	09/15/2014	12/15/2024
G.O. Improvement Refunding Bonds of 2014A	2.00	09/15/2014	12/15/2018
G.O. Improvement Bonds of 2015A	2.00–3.00	05/14/2015	12/15/2030
G.O. Improvement Bonds of 2015B	1.00–2.25	05/14/2015	12/15/2022
Total G.O. special assessment bonds			
Tax increment bonds			
G.O. Tax Increment Refunding Bonds of 2011A	1.80–3.00	08/31/2011	12/15/2024
General obligation bonds			
G.O. Park Refunding Bonds of 2005	3.75–5.00	09/01/2005	12/01/2017
G.O. Street Reconstruction Bonds of 2007B	4.00	05/15/2007	12/15/2017
G.O. Improvement Bonds of 2011B	2.00–3.40	12/14/2011	12/15/2031
G.O. Capital Improvement Refunding Bonds of 2012A	2.00–2.70	03/13/2012	12/15/2029
Total general obligation bonds			
General obligation revenue bonds			
G.O. Water Treatment Plant Revenue Bonds of 2007A	4.00–4.20	05/15/2007	12/15/2032
G.O. Improvement Refunding Bonds of 2015A	1.00–3.00	05/14/2015	12/15/2031
Total general obligation revenue bonds			
General obligation capital improvement plan bonds			
G.O. Capital Plan Bonds of 2006A	3.80–3.90	08/01/2007	02/01/2017
Total bonded indebtedness			

Authorized	Outstanding January 1	Issued (Retired)	Outstanding December 31	Due in 2016	
				Principal	Interest
\$ 1,700,000	\$ 875,000	\$ (175,000)	\$ 700,000	\$ 175,000	\$ 22,750
1,235,000	755,000	(120,000)	635,000	125,000	18,503
2,130,000	1,525,000	(210,000)	1,315,000	215,000	27,665
2,280,000	1,860,000	(220,000)	1,640,000	225,000	34,268
3,240,000	2,915,000	(325,000)	2,590,000	325,000	56,780
2,170,000	2,170,000	(185,000)	1,985,000	190,000	42,100
495,000	495,000	(120,000)	375,000	125,000	7,500
4,640,000	–	4,640,000	4,640,000	–	115,824
2,490,000	–	2,490,000	2,490,000	280,000	40,610
<u>20,380,000</u>	<u>10,595,000</u>	<u>5,775,000</u>	<u>16,370,000</u>	<u>1,660,000</u>	<u>366,000</u>
290,000	245,000	(20,000)	225,000	20,000	5,520
6,260,000	2,245,000	(710,000)	1,535,000	780,000	76,750
1,400,000	485,000	(155,000)	330,000	160,000	13,200
3,500,000	3,500,000	(120,000)	3,380,000	135,000	92,618
<u>9,825,000</u>	<u>8,635,000</u>	<u>(395,000)</u>	<u>8,240,000</u>	<u>410,000</u>	<u>184,157</u>
<u>20,985,000</u>	<u>14,865,000</u>	<u>(1,380,000)</u>	<u>13,485,000</u>	<u>1,485,000</u>	<u>366,725</u>
8,500,000	7,510,000	(220,000)	7,290,000	240,000	297,714
<u>5,360,000</u>	<u>–</u>	<u>5,360,000</u>	<u>5,360,000</u>	<u>–</u>	<u>134,125</u>
<u>13,860,000</u>	<u>7,510,000</u>	<u>5,140,000</u>	<u>12,650,000</u>	<u>240,000</u>	<u>431,839</u>
<u>1,225,000</u>	<u>425,000</u>	<u>(135,000)</u>	<u>290,000</u>	<u>140,000</u>	<u>8,545</u>
<u>\$ 56,740,000</u>	<u>\$ 33,640,000</u>	<u>\$ 9,380,000</u>	<u>\$ 43,020,000</u>	<u>\$ 3,545,000</u>	<u>\$ 1,178,629</u>

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CITY OF PRIOR LAKE

Bond Schedules
December 31, 2015

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation special assessment bonds				
\$1,700,000 General Obligation				
Improvement Bonds, Series 2009A	05/15/2009	3.00 %	12/15/2016	\$ 175,000
		3.00	12/15/2017	175,000
		3.50	12/15/2018	175,000
		3.50	12/15/2019	175,000
Total				700,000
\$1,235,000 General Obligation				
Improvement Bonds, Series 2010A	05/26/2010	2.50 %	12/15/2016	125,000
		2.75	12/15/2017	125,000
		3.00	12/15/2018	125,000
		3.10	12/15/2019	130,000
		3.20	12/15/2020	130,000
Total				635,000
\$2,130,000 General Obligation				
Improvement Bonds, Series 2011A	08/31/2011	1.80 %	12/15/2016	215,000
		1.80	12/15/2017	215,000
		2.00	12/15/2018	220,000
		2.15	12/15/2019	220,000
		2.35	12/15/2020	220,000
		2.50	12/15/2021	225,000
Total				1,315,000
\$2,280,000 General Obligation				
Improvement Bonds, Series 2011B	12/14/2011	1.80 %	12/15/2016	225,000
		1.80	12/15/2017	225,000
		2.00	12/15/2018	230,000
		2.15	12/15/2019	230,000
		2.35	12/15/2020	240,000
		2.50	12/15/2021	245,000
		3.00	12/15/2022	245,000
Total				1,640,000

(continued)

CITY OF PRIOR LAKE

Bond Schedules (continued)
December 31, 2015

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation special assessment bonds (continued)				
\$3,240,000 General Obligation				
Improvement Bonds, Series 2013A	08/15/2013	2.00 %	12/15/2016	325,000
		2.00	12/15/2017	325,000
		2.00	12/15/2018	325,000
		2.00	12/15/2019	325,000
		2.10	12/15/2020	325,000
		2.30	12/15/2021	325,000
		2.50	12/15/2022	320,000
		2.65	12/15/2023	320,000
Total				2,590,000
\$2,170,000 General Obligation				
Improvement Bonds, Series 2014A	09/25/2014	2.00 %	12/15/2016	190,000
		2.00	12/15/2017	190,000
		2.00	12/15/2018	215,000
		2.00	12/15/2019	220,000
		2.00	12/15/2020	225,000
		2.00	12/15/2021	230,000
		2.00	12/15/2022	235,000
		2.50	12/15/2023	235,000
		2.50	12/15/2024	245,000
Total				1,985,000
\$495,000 General Obligation Improvement				
Refunding Bonds, Series 2014A	09/25/2014	2.00 %	12/15/2016	125,000
		2.00	12/15/2017	125,000
		2.00	12/15/2018	125,000
Total				375,000
\$4,640,000 General Obligation				
Improvement Bonds, Series 2015A	05/14/2015	2.00 %	12/15/2023	405,000
		2.00	12/15/2024	575,000
		2.00	12/15/2025	775,000
		2.50	12/15/2026	610,000
		2.50	12/15/2027	555,000
		3.00	12/15/2028	550,000
		3.00	12/15/2029	600,000
		3.00	12/15/2030	570,000
Total				4,640,000

(continued)

CITY OF PRIOR LAKE

Bond Schedules (continued)
December 31, 2015

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation special assessment bonds (continued)				
\$2,490,000 General Obligation Improvement Bonds, Series 2015B	05/14/2015	1.00 %	12/15/2016	280,000
		1.00	12/15/2017	230,000
		1.40	12/15/2018	650,000
		1.60	12/15/2019	355,000
		1.90	12/15/2020	210,000
		2.10	12/15/2021	315,000
		2.25	12/15/2022	450,000
				<u>2,490,000</u>
Total general obligation special assessment bonds				<u>\$ 16,370,000</u>
General obligation tax increment bonds				
\$290,000 Tax Increment Refunding Bonds, Series 2011A	08/31/2011	1.80 %	12/15/2016	\$ 20,000
		1.80	12/15/2017	20,000
		2.00	12/15/2018	25,000
		2.15	12/15/2019	25,000
		2.35	12/15/2020	25,000
		2.50	12/15/2021	25,000
		3.00	12/15/2022	25,000
		3.00	12/15/2023	30,000
		3.00	12/15/2024	30,000
				<u>\$ 225,000</u>
Total general obligation tax increment bonds				<u>\$ 225,000</u>
General obligation bonds				
\$6,260,000 General Obligation Park Refunding Bonds of 2005	09/01/2005	5.00 %	12/01/2016	\$ 780,000
		5.00	12/01/2017	755,000
Total				<u>1,535,000</u>
\$1,400,000 General Obligation Street Reconstruction Bonds of 2007B	05/15/2007	4.00 %	12/15/2016	160,000
		4.00	12/15/2017	170,000
Total				<u>330,000</u>

(continued)

CITY OF PRIOR LAKE

Bond Schedules (continued)
December 31, 2015

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation bonds (continued)				
\$3,500,000 General Obligation Improvement Bonds, Series 2011B				
	12/14/2011	2.00 %	12/15/2016	135,000
		2.00	12/15/2017	135,000
		2.00	12/15/2018	140,000
		2.00	12/15/2019	150,000
		2.05	12/15/2020	160,000
		2.20	12/15/2021	175,000
		2.35	12/15/2022	180,000
		2.50	12/15/2023	195,000
		2.65	12/15/2024	215,000
		2.75	12/15/2025	230,000
		2.85	12/15/2026	240,000
		3.00	12/15/2027	255,000
		3.20	12/15/2028	270,000
		3.20	12/15/2029	285,000
		3.40	12/15/2030	300,000
		3.40	12/15/2031	315,000
Total				<u>3,380,000</u>
\$9,825,000 General Obligation Capital Improvement Refunding Bonds of 2012A				
	03/13/2012	2.00 %	12/15/2016	410,000
		2.00	12/15/2017	435,000
		2.00	12/15/2018	470,000
		2.00	12/15/2019	485,000
		2.00	12/15/2020	515,000
		2.00	12/15/2021	545,000
		2.00	12/15/2022	565,000
		2.00	12/15/2023	590,000
		2.15	12/15/2024	615,000
		2.30	12/15/2025	645,000
		2.40	12/15/2026	685,000
		2.50	12/15/2027	720,000
		2.60	12/15/2028	760,000
		2.70	12/15/2029	800,000
Total				<u>8,240,000</u>
Total general obligation bonds				<u>\$ 13,485,000</u>

(continued)

CITY OF PRIOR LAKE

Bond Schedules (continued)
December 31, 2015

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation revenue bonds				
\$8,500,000 General Obligation Water Treatment Plant Revenue Bonds of 2007A	05/15/2007	4.00 %	12/15/2016	\$ 240,000
		4.00	12/15/2017	5,420,000
		4.00	12/15/2018	280,000
		4.00	12/15/2019	300,000
		4.00	12/15/2020	325,000
		4.00	12/15/2021	350,000
		4.00	12/15/2022	375,000
Total				<u>7,290,000</u>
\$5,360,000 General Obligation Improvement Refunding Bonds, Series 2015A	05/14/2015	1.00 %	12/15/2018	75,000
		1.00	12/15/2019	75,000
		1.50	12/15/2020	75,000
		1.50	12/15/2021	75,000
		1.50	12/15/2022	75,000
		2.00	12/15/2023	480,000
		2.00	12/15/2024	495,000
		2.00	12/15/2025	515,000
		2.50	12/15/2026	530,000
		2.50	12/15/2027	550,000
		3.00	12/15/2028	570,000
		3.00	12/15/2029	590,000
		3.00	12/15/2030	615,000
		3.00	12/15/2031	640,000
Total				<u>5,360,000</u>
Total general obligation revenue bonds				<u><u>\$ 12,650,000</u></u>
General obligation capital improvement plan bonds				
\$1,225,000 General Obligation Capital Improvement Plan Bonds	08/01/2007	3.85 %	02/01/2016	\$ 140,000
		3.90	02/01/2017	150,000
Total general obligation capital improvement plan bonds				<u><u>\$ 290,000</u></u>

CITY OF PRIOR LAKE

Debt Service Requirements
December 31, 2015

Year	General Obligation Bonds		General Obligation Special Assessment Bonds		General Obligation Tax Increment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 1,485,000	\$ 366,725	\$ 1,660,000	\$ 366,000	\$ 20,000	\$ 5,520
2017	1,495,000	310,425	1,610,000	333,655	20,000	5,160
2018	610,000	254,475	2,065,000	301,498	25,000	4,800
2019	635,000	242,275	1,655,000	260,223	25,000	4,300
2020	675,000	229,576	1,350,000	224,158	25,000	3,763
2021	720,000	215,996	1,340,000	194,593	25,000	3,175
2022	745,000	201,244	1,250,000	164,888	25,000	2,550
2023	785,000	185,713	960,000	136,305	30,000	1,800
2024	830,000	169,041	820,000	113,850	30,000	900
2025	875,000	150,120	775,000	96,225	-	-
2026	925,000	128,960	610,000	80,725	-	-
2027	975,000	105,680	555,000	65,475	-	-
2028	1,030,000	80,030	550,000	51,600	-	-
2029	1,085,000	51,630	600,000	35,100	-	-
2030	300,000	20,910	570,000	17,098	-	-
2031	315,000	10,710	-	-	-	-
Total	<u>\$ 13,485,000</u>	<u>\$ 2,723,510</u>	<u>\$ 16,370,000</u>	<u>\$ 2,441,393</u>	<u>\$ 225,000</u>	<u>\$ 31,968</u>

General Obligation Revenue Bonds		General Obligation Plan Bonds	
Principal	Interest	Principal	Interest
\$ 240,000	\$ 431,839	\$ 140,000	\$ 8,545
5,420,000	422,239	150,000	2,925
355,000	199,325	-	-
375,000	187,375	-	-
400,000	174,625	-	-
425,000	160,500	-	-
450,000	145,375	-	-
480,000	129,250	-	-
495,000	119,650	-	-
515,000	109,750	-	-
530,000	99,450	-	-
550,000	86,200	-	-
570,000	72,450	-	-
590,000	55,350	-	-
615,000	37,650	-	-
640,000	19,200	-	-
<u>\$ 12,650,000</u>	<u>\$ 2,450,228</u>	<u>\$ 290,000</u>	<u>\$ 11,470</u>

CITY OF PRIOR LAKE

Tax Levies and Collections, and
Special Assessment Levies and Collections
Prior Ten Years

Tax Levies and Collections

Year	Total Levy	Collection of Current Year Levy	Percentage of Levy Collected	Collections of Prior Years' Levy	Total Collections	Percentage of Total Collections to Levy
2006	\$ 8,086,236	\$ 7,733,423	95.64 *	\$ 76,133	\$ 7,809,556	96.58 %
2007	8,718,777	8,557,509	98.15 *	96,934	8,654,443	99.26
2008	9,365,437	9,027,680	96.39 *	1,520,587	9,148,267	97.68
2009	9,881,555	9,330,012	94.42 *	157,906	9,487,918	96.02
2010	10,079,186	9,764,852	96.88 *	235,004	9,999,856	99.21
2011	10,114,124	9,742,074	96.32 *	148,029	9,890,103	97.79
2012	9,414,124	9,367,641	99.51	132,726	9,500,367	100.92
2013	9,414,124	9,307,276	98.87	79,901	9,387,177	99.71
2014	9,448,918	9,361,417	99.07	86,180	9,447,597	99.99
2015	10,394,086	10,323,081	99.32	48,336	10,371,417	99.78

*Market value credit was withheld by the state of Minnesota

Special Assessment Levies and Collections

Year	Total Levy	Collection of Current Year Levy**	Percentage of Levy Collected	Collections of Prior Years' Levy	Total Collections	Percentage of Total Collections to Levy
2006	\$ 476,717	\$ 446,508	93.66	\$ 49,397	\$ 495,905	104.03 %
2007	405,756	400,937	98.81	39,075	440,012	108.44
2008	336,687	330,203	98.07	9,243	339,446	100.82
2009	366,972	362,795	98.86	3,461	366,256	99.80
2010	441,066	435,017	98.63	3,522	438,539	99.43
2011	347,795	341,728	98.26	5,802	347,530	99.92
2012	385,017	380,144	98.73	4,240	384,384	99.84
2013	393,347	388,480	98.76	4,943	393,423	100.02
2014	526,584	460,800	87.51	4,946	465,746	88.45
2015	374,285	365,481	97.65	11,655	377,136	100.76

**Excludes prepaid assessment collections

CITY OF PRIOR LAKE

Schedules of Market Value, Tax Levy, Tax Capacity Values,
Tax Capacity Rate, and Market Value Rate
Prior Three Years

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Taxable market value	\$ 2,372,776,200	\$ 2,445,568,700	\$ 2,620,934,100
Tax levy	\$ 9,414,124	\$ 9,448,918	\$ 10,394,086
Tax capacity, net of fiscal disparities, and tax increment	\$ 24,018,600	\$ 24,793,703	\$ 26,636,432
Tax capacity rate	31.887%	30.736%	31.988%
Market value rate	0.040%	0.040%	0.039%
EDA tax capacity rate	0.625%	0.551%	0.557%

CITY OF PRIOR LAKE

Key Financial Indicators
Prior Three Years

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Current population	24,223	24,911	25,049
Tax capacity, net of fiscal disparities, and tax increment	\$ 24,018,600	\$ 24,793,703	\$ 26,636,432
Percent of current property taxes collected	98.87%	99.07%	99.32%
City revenues per capita (governmental funds)	\$ 788	\$ 712	\$ 775
City expenditures per capita (governmental funds)	\$ 1,032	\$ 886	\$ 1,209
Ratio of bonded debt to tax capacity	148.55%	128.05%	153.07%
Bond rating	Aa2	Aa2	Aa2

OTHER REQUIRED REPORTS

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PRINCIPALS

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

To the City Council and Management
City of Prior Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Prior Lake, Minnesota (the City) 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, and have issued our report thereon dated May 18, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(continued)

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
May 18, 2016

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the City Council and Management
City of Prior Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Prior Lake, Minnesota (the City) 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, and have issued our report thereon dated May 18, 2016.

MINNESOTA LEGAL COMPLIANCE

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings as item 2015-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

CITY'S RESPONSE TO FINDING

The City's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings. The City's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
Minneapolis, Minnesota
May 18, 2016

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CITY OF PRIOR LAKE

Schedule of Findings
December 31, 2015

FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2015-001 COLLATERAL FOR UNINSURED DEPOSITS

Condition and Criteria – Minnesota Statute § 118A.03 requires that if a city's deposits exceed federal insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for two banks for which City of Prior Lake, Minnesota (the City) held two certificates of deposit each through separate investment brokers at December 31, 2015, leaving \$484,995 of the City's deposits uninsured and uncollateralized.

Cause – This was an oversight by city personnel.

Effect – City deposits not covered by federal depository insurance or pledged collateral were subject to custodial credit risk, the risk they may be lost if the depository bank fails.

Recommendation – We recommend that the City review its investment portfolio of certificates of deposit to assure that in the future there are no certificates of deposit held through various investment brokers with the same bank. This will ensure the City will remain covered by federal depository insurance coverage for collateral purposes.

Management Response – There is no disagreement with the audit finding. This was an oversight by the City that was recognized by city staff and rectified in January and March 2016. The City's staff reviews collateral coverage regularly and will assure that adequate diversification of certificates of deposit is obtained in the future.

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