

CITY OF PRIOR LAKE  
SCOTT COUNTY, MINNESOTA

Financial Statements  
and Supplemental Information  
Year Ended  
December 31, 2014

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CITY OF PRIOR LAKE  
SCOTT COUNTY, MINNESOTA

**Table of Contents**

	Page
<b>INTRODUCTORY SECTION</b>	
<b>ELECTED AND APPOINTED OFFICIALS</b>	1
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITOR’S REPORT</b>	2–4
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	5–18
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements	
Statement of Net Position	19
Statement of Activities	20–21
Fund Financial Statements	
Governmental Funds	
Balance Sheet	22–23
Reconciliation of the Balance Sheet to the Statement of Net Position	24
Statement of Revenues, Expenditures, and Changes in Fund Balances	25–26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	27
Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund – Budget and Actual	28
Proprietary Funds	
Statements of Net Position	29–30
Statements of Revenues, Expenses, and Changes in Net Position	31–32
Statements of Cash Flows	33–36
Notes to Basic Financial Statements	37–62
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Volunteer Fire Department Firefighter’s Relief and Pension Association Schedule of Funding Progress	63
City of Prior Lake Other Post-Employment Benefits Plan Schedule of Funding Progress	63
<b>SUPPLEMENTAL INFORMATION</b>	
Combining and Individual Fund Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	65
Nonmajor Special Revenue Funds	
Combining Balance Sheet	66–67
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	68–69

CITY OF PRIOR LAKE  
SCOTT COUNTY, MINNESOTA

**Table of Contents (continued)**

	Page
<b>SUPPLEMENTAL INFORMATION (CONTINUED)</b>	
Combining and Individual Fund Statements and Schedules (continued)	
Nonmajor Governmental Funds (continued)	
Nonmajor Capital Projects Funds	
Combining Balance Sheet	70–73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	74–77
General Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	78–84
Debt Service Funds	
Balance Sheet by Account	85–88
Schedule of Revenues, Expenditures, and Changes in Fund Balances	89–92
<b>OTHER INFORMATION SECTION (UNAUDITED)</b>	
Summary Financial Report	
Revenues and Expenditures for General Operations	93
Combined Schedule of Indebtedness	94–95
Bond Schedules	96–100
Debt Service Requirements	101–102
Tax Levies and Collections, Special Assessment Levies and Collections	103
Schedules of Market Value, Tax Levy, Tax Capacity Values, Tax Capacity Rate, and Market Value Rate	104
Key Financial Indicators	105
<b>OTHER REQUIRED REPORTS</b>	
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 <i>Government Auditing Standards</i>	106–107
Independent Auditor’s Report on Minnesota Legal Compliance	108

## INTRODUCTORY SECTION

CITY OF PRIOR LAKE  
SCOTT COUNTY, MINNESOTA

Elected and Appointed Officials  
As of December 31, 2014

**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
Vanessa Soukup	Councilmember	12/31/2014

**APPOINTED**

Frank Boyles	City Manager
Jerilyn Erickson	Finance Director
Cathy Erickson	Accounting Manager

FINANCIAL SECTION



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 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, 2014, 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, 2014, 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.

## **OTHER MATTERS**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedules of Funding Progress for the Volunteer Fire Department Firefighter's Relief and Pension Association, and the City of Prior Lake Other Post-Employment Benefits Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund 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 combining and individual fund statements and schedules are 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 2013 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 16, 2014. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2013 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 15, 2015 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 15, 2015

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## CITY OF PRIOR LAKE

### Management's Discussion and Analysis Fiscal Year Ended December 31, 2014

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, 2014.

#### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$159,582,600 (*net position*). Of this amount, \$20,605,930 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$4,195,212.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$19,768,634, a decrease of \$802,527 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$5,775,937, or 46.0 percent, of budgeted 2015 expenditures and transfers out (\$12,563,945). The total fund balance of \$5,776,647 reflects a decrease of \$654,611. This is \$471,146 less than the budgeted decrease which was primarily due to increased revenues from interest on investments as the investment market improved. Also, the City had lower than budgeted expenditures for capital projects, which resulted in less capital outlay and street expenditures than was originally planned for in 2014.

#### 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 and liabilities, with the difference between the two 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, water quality, and transit operations.

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.

Proprietary funds provide the same type of information as 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 statements 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 exceeded liabilities by \$159,582,600 at the close of the most recent fiscal year.

The City's investment in capital asset (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding totaled 84 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	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current and other assets	\$ 25,821,559	\$ 27,567,223	\$ 7,783,391	\$ 7,912,257	\$ 33,604,950	\$ 35,479,480
Capital assets	121,076,263	116,684,922	46,627,184	45,640,328	167,703,447	162,325,250
<b>Total assets</b>	<u>\$ 146,897,822</u>	<u>\$ 144,252,145</u>	<u>\$ 54,410,575</u>	<u>\$ 53,552,585</u>	<u>\$ 201,308,397</u>	<u>\$ 197,804,730</u>
<b>Liabilities</b>						
Long-term liabilities	\$ 37,672,990	\$ 39,147,080	\$ 109,172	\$ 105,754	\$ 37,782,162	\$ 39,252,834
Other liabilities	2,684,991	2,927,896	1,258,644	236,612	3,943,635	3,164,508
<b>Total liabilities</b>	<u>\$ 40,357,981</u>	<u>\$ 42,074,976</u>	<u>\$ 1,367,816</u>	<u>\$ 342,366</u>	<u>\$ 41,725,797</u>	<u>\$ 42,417,342</u>
<b>Net position</b>						
Net investment in capital assets	\$ 87,398,664	\$ 81,787,853	\$ 46,627,184	\$ 45,640,328	\$ 134,025,848	\$ 127,428,181
Restricted	4,950,822	6,069,035	-	-	4,950,822	6,069,035
Unrestricted	14,190,355	14,320,281	6,415,575	7,569,891	20,605,930	21,890,172
<b>Total net position</b>	<u>\$ 106,539,841</u>	<u>\$ 102,177,169</u>	<u>\$ 53,042,759</u>	<u>\$ 53,210,219</u>	<u>\$ 159,582,600</u>	<u>\$ 155,387,388</u>

An additional portion of the City's net position (\$4,950,822, or 3.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$20,605,930, 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.

**Table 2**  
**Changes in Net Position**  
**for the Years Ended December 31, 2014 and 2013**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,912,949	\$ 2,128,090	\$ 6,479,535	\$ 6,627,933	\$ 8,392,484	\$ 8,756,023
Operating grants and contributions	1,354,372	1,208,622	883,079	717,109	2,237,451	1,925,731
Capital grants and contributions	5,917,572	8,994,576	576,240	323,909	6,493,812	9,318,485
General revenues						
Property taxes	9,923,506	9,835,305	-	-	9,923,506	9,835,305
Franchise taxes	594,800	584,295	-	-	594,800	584,295
Grants and contributions not restricted to specific programs	52,555	16,106	-	-	52,555	16,106
Interest income (losses)	756,967	(438,201)	355,290	(182,433)	1,112,257	(620,634)
Miscellaneous	204,641	106,610	5,782	3,109	210,423	109,719
<b>Total revenues</b>	<b>20,717,362</b>	<b>22,435,403</b>	<b>8,299,926</b>	<b>7,489,627</b>	<b>29,017,288</b>	<b>29,925,030</b>
<b>Expenses</b>						
General government	3,557,910	3,188,370	-	-	3,557,910	3,188,370
Public safety	5,230,546	5,059,458	-	-	5,230,546	5,059,458
Public works	4,227,440	3,921,783	-	-	4,227,440	3,921,783
Culture and recreation	2,229,987	2,188,148	-	-	2,229,987	2,188,148
Economic development	535,955	669,303	-	-	535,955	669,303
Interest on long-term debt	1,185,474	1,829,979	-	-	1,185,474	1,829,979
Water	-	-	2,297,197	2,188,545	2,297,197	2,188,545
Sewer	-	-	2,447,618	2,345,167	2,447,618	2,345,167
Water quality	-	-	638,570	532,508	638,570	532,508
Transit	-	-	1,099,899	772,707	1,099,899	772,707
<b>Total expenses</b>	<b>16,967,312</b>	<b>16,857,041</b>	<b>6,483,284</b>	<b>5,838,927</b>	<b>23,450,596</b>	<b>22,695,968</b>
Increase in net position before transfers and special items	3,750,050	5,578,362	1,816,642	1,650,700	5,566,692	7,229,062
Special item						
Transfer	-	-	(1,371,480)	-	(1,371,480)	-
Transfers	612,622	1,536,950	(612,622)	(1,536,950)	-	-
<b>Changes in net position</b>	<b>4,362,672</b>	<b>7,115,312</b>	<b>(167,460)</b>	<b>113,750</b>	<b>4,195,212</b>	<b>7,229,062</b>
Net position – beginning	102,177,169	95,061,857	53,210,219	53,096,469	155,387,388	148,158,326
Net position – ending	<u>\$ 106,539,841</u>	<u>\$ 102,177,169</u>	<u>\$ 53,042,759</u>	<u>\$ 53,210,219</u>	<u>\$ 159,582,600</u>	<u>\$ 155,387,388</u>

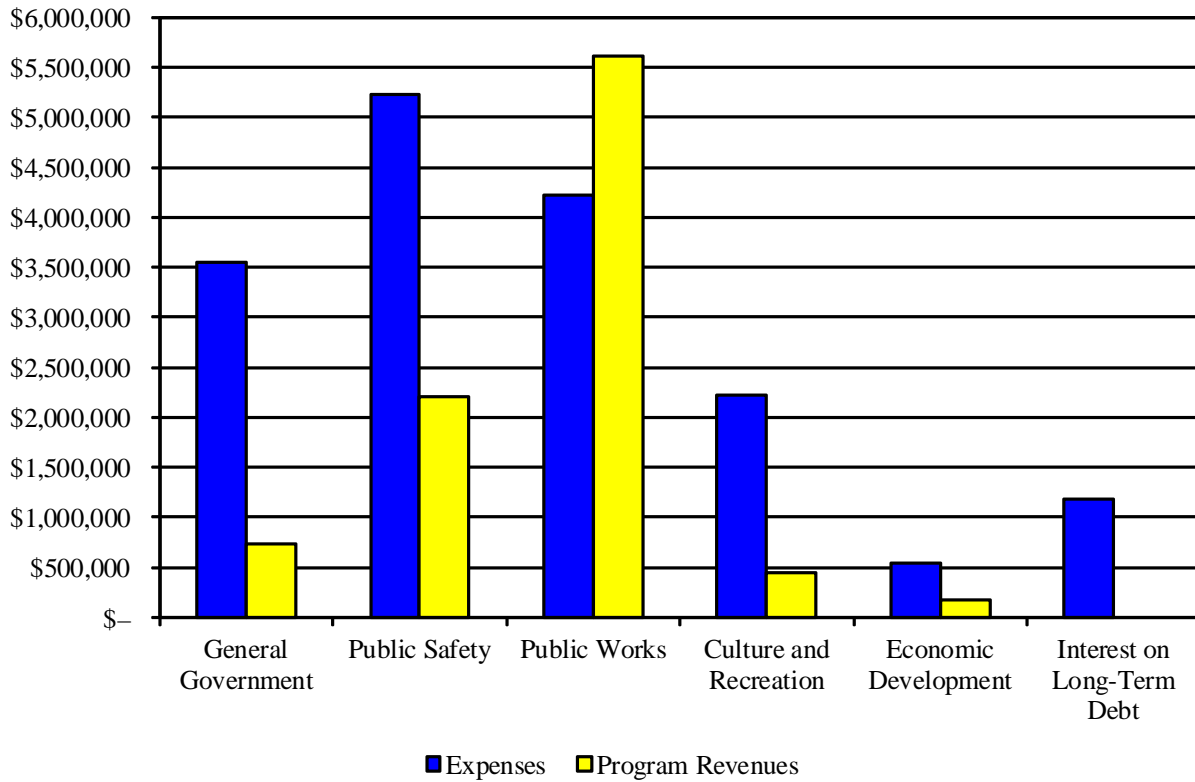
**Governmental Activities** – Governmental activities increased the City’s net position by \$4,362,672. Key elements of this increase are seen in the table above. The increase is primarily due to an increase in state grants, including \$244,000 for a MN PFA Grant for the CR 12 and Sunset projects, a reduction of interest on long-term debt due to a Lease Revenue Bond 2005B payoff in 2013, and debt refunding in 2014. Additional economic development costs, which are dependent on development and antennae projects, were down in 2014 as compared to 2013. There is a reduction of approximately \$250,000 in 2014 charges for services due to a 33 percent reduction in building permits from the prior year.

The business-type activities decreased the City’s net position by \$167,460 due mostly to expenses related to the transfer of the City’s transit operation to Minnesota Valley Transit Authority (MVTA) at the end of 2014. Transit Fund expense increases in 2014 were related to costs for a downtown transit study.

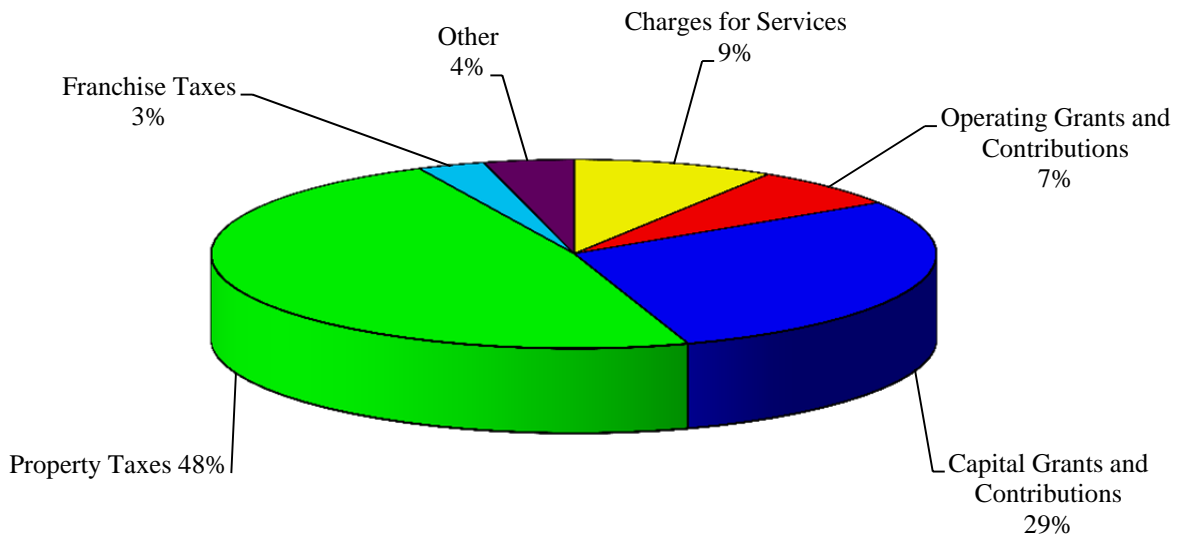
Interest income (losses) were higher due to positive market value adjustments on the City’s investment portfolio.



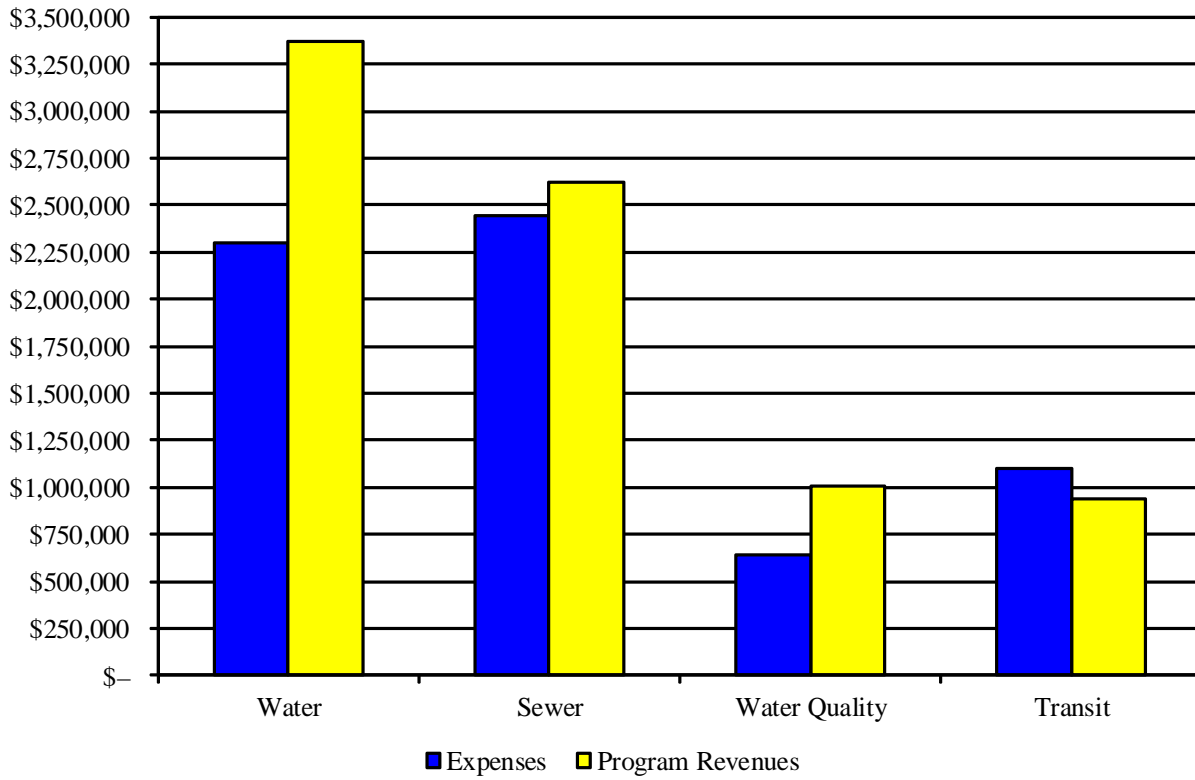
Below are specific graphs that provide comparisons of the governmental activities program revenues and expenses:



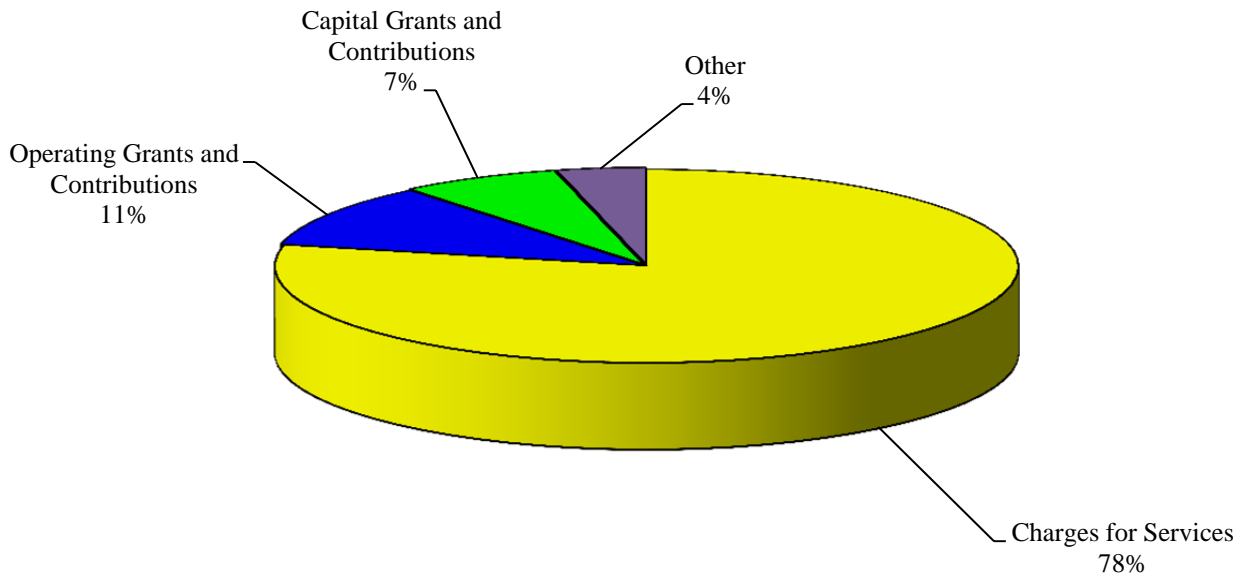
**Governmental Activities – Revenue by Program**



**Business-Type Activities** – Below are graphs showing the business-type activities program revenues and expense comparisons. Transit Fund expenditures include expenses related to the discontinuation of operations in the Transit Fund.



**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 \$19,768,634, a decrease of \$802,527 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 \$5,775,937, while total fund balance reached \$5,776,647. 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 46.0 percent of total 2015 General Fund budgeted expenditures and transfers out (\$12,563,945).

Total fund balance for the City's General Fund decreased by \$654,611 during 2014. This is \$471,146 less than the budgeted decrease which was due to increased revenues from interest on investments as the investment market improved and decreased expenditures for projects, which resulted in less capital outlay and street expenditures than was originally planned for in 2014. The 2014 budget included a number of street repairs and maintenance projects as well as trail replacements that were not completed due to the abbreviated construction season. The implementation of the final two modules for the ERP System and purchase of election equipment were also not completed. These projects are planned for completion in 2015. Approximately \$300,000 of project expenditures will be carried forward to 2015.

The DAG Special Revenue Fund balance decreased \$43,516. Charges for services increased \$146,461, however, capital outlay exceeded this revenue in 2014 which caused the decrease in fund balance.

The Debt Service Fund balance decreased by \$3,531,843. This is largely due to the payment made to the refunded bond escrow agent in 2014. The City manages cash flow in all debt service funds and ensures adequate resources exist to fund future obligations.

The Construction Fund balance decreased by \$413,066. This decrease is mainly due to a decrease in state grants for the Main/Ridgemont/TH 13 street reconstruction and County Road 12 construction projects in the current year as these projects are nearing completion. Because these were almost finished capital outlay also experienced a decrease in the current 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 \$13,878 over budget in 2014 due primarily to an improved investment market. The number of building permits came in 21 percent below budget. This resulted in a reduction in revenues associated with building permits and plan check fees of approximately \$145,000 lower than budget.

Actual expenditures were \$437,824 less than budget in 2014. The largest variances from budget were in culture and recreation capital outlay and public works being under budget by \$145,886 and \$128,051, respectively. This is primarily due to park and street improvements not being completed as budgeted.

The 2014 budget anticipated a planned use of reserves in the amount of \$1,033,440. The 2014 budget was amended to use additional reserves primarily for projects carried forward from 2013. The revised planned use of reserves was \$1,125,758. As noted in the governmental funds section above, not all 2014 projects were completed and approximately \$300,000 of project expenditures will be carried forward to 2015.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** – The City’s investment in capital assets for its governmental and business-type activities as of December 31, 2014 amounts to \$167,703,447 (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	
	2014	2013	2014	2013	2014	2013
Land	\$ 32,075,809	\$ 31,818,978	\$ –	\$ –	\$ 32,075,809	\$ 31,818,978
Easements	33,661,179	31,120,861	75,300	75,300	33,736,479	31,196,161
Construction in progress	6,882,779	8,597,095	47,281	–	6,930,060	8,597,095
Land improvements	780,320	795,702	65,903	70,290	846,223	865,992
Machinery and equipment	2,602,981	2,849,168	438,262	302,264	3,041,243	3,151,432
Vehicles	981,972	1,044,660	15,740	23,005	997,712	1,067,665
Infrastructure	44,091,223	40,458,458	45,984,698	45,169,469	90,075,921	85,627,927
Total	<u>\$ 121,076,263</u>	<u>\$ 116,684,922</u>	<u>\$ 46,627,184</u>	<u>\$ 45,640,328</u>	<u>\$ 167,703,447</u>	<u>\$ 162,325,250</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 \$33,640,000. All of this amount comprises debt backed by the full faith and credit of the City. The City’s total debt decreased during the current fiscal year due to scheduled debt service payments and payments made on refunded bonds from escrow in 2014.

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
G.O. bonds	\$ 15,290,000	\$ 19,880,000	\$ –	\$ –	\$ 15,290,000	\$ 19,880,000
G.O. special assessment bonds	10,595,000	9,885,000	–	–	10,595,000	9,885,000
G.O. tax increment bonds	245,000	270,000	–	–	245,000	270,000
G.O. revenue bonds	7,510,000	7,880,000	–	–	7,510,000	7,880,000
Premium (discount) on bonds payable	292,599	290,627	–	–	292,599	290,627
Energy lease loan payable	2,667,924	–	–	–	2,667,924	–
Compensated absences payable	929,153	941,453	109,172	105,754	1,038,325	1,047,207
Net OPEB obligation	143,314	–	–	–	143,314	–
<b>Total</b>	<b>\$ 37,672,990</b>	<b>\$ 39,147,080</b>	<b>\$ 109,172</b>	<b>\$ 105,754</b>	<b>\$ 37,782,162</b>	<b>\$ 39,252,834</b>

In April 2010, Moody’s Investor Services 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 2014 bond issuance.

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 \$2,590,697,300, which calculates to a debt margin of \$77,720,919. 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 \$15,290,000 of general obligation debt outstanding leaving a debt margin of \$62,430,919.

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 \$12,563,945, expenditures and other financing uses, for fiscal 2015, a decrease of \$421,310, or 3.2 percent, from the 2014 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.

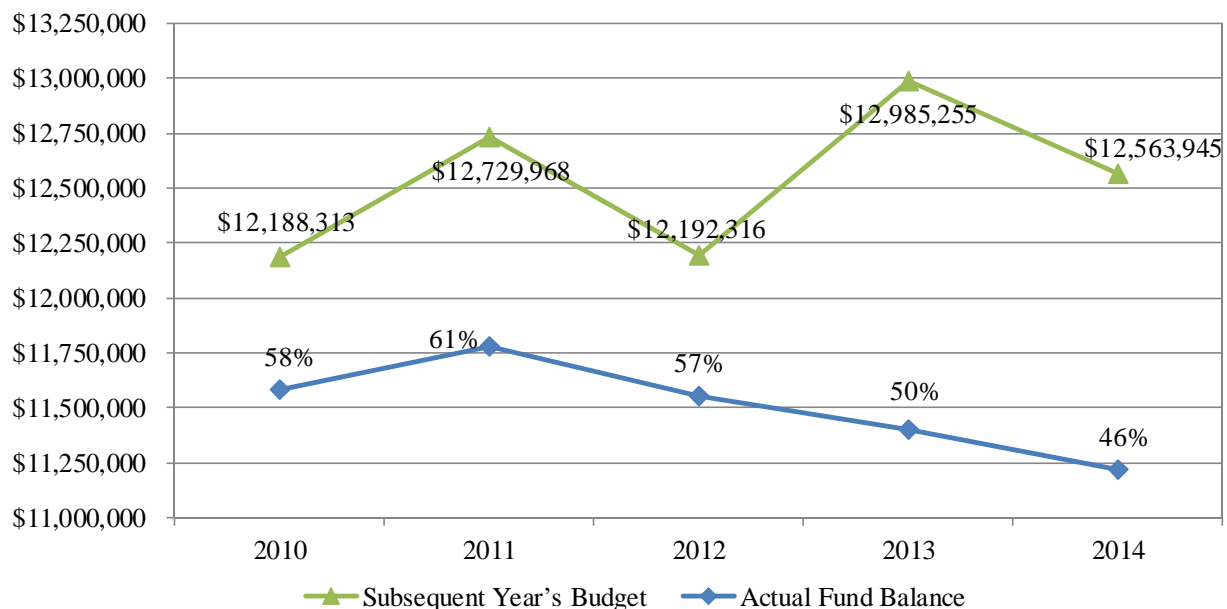
### Objective 1: Aa2 Bond Rating

Maintain or improve current Aa2 Bond Rating – Strong credit rating by Moody’s, Inc. provides low cost financing for the City’s general obligation bonds. In April 2010, Moody’s Investor Services 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 2014 bond issuances:

2010	Aa2
2011	Aa2
2012	Aa2
2013	Aa2
2014	Aa2

### Objective 2: General Fund Reserve Balance

Maintain a 40 to 50 Percent General Fund Reserve Balance – The Office of the State Auditor recommended reserve 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>
2010	36.93	36.03	29.44
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

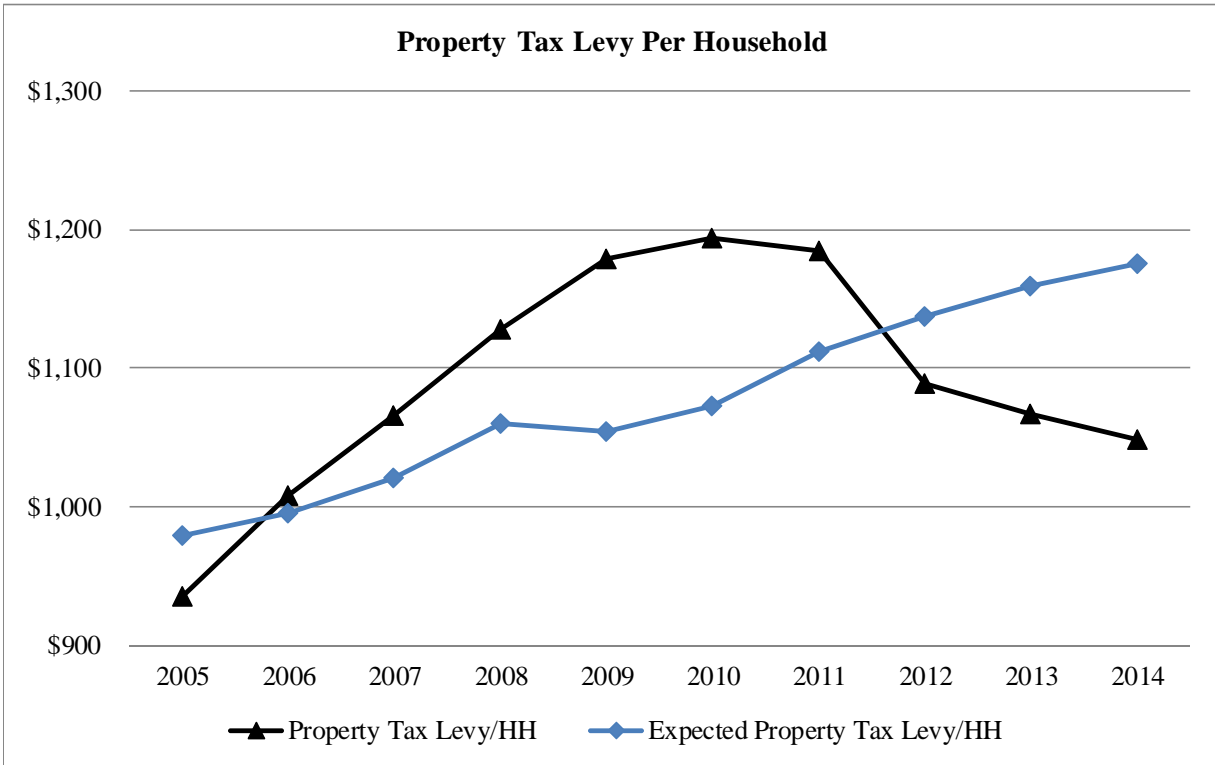
Source: League of Minnesota Cities and Scott County

#### Average Prior Lake EDA Tax Capacity Rate

2010	–
2011	–
2012	–
2013	0.62
2014	0.55

#### Objective 4: Property Taxes/Household

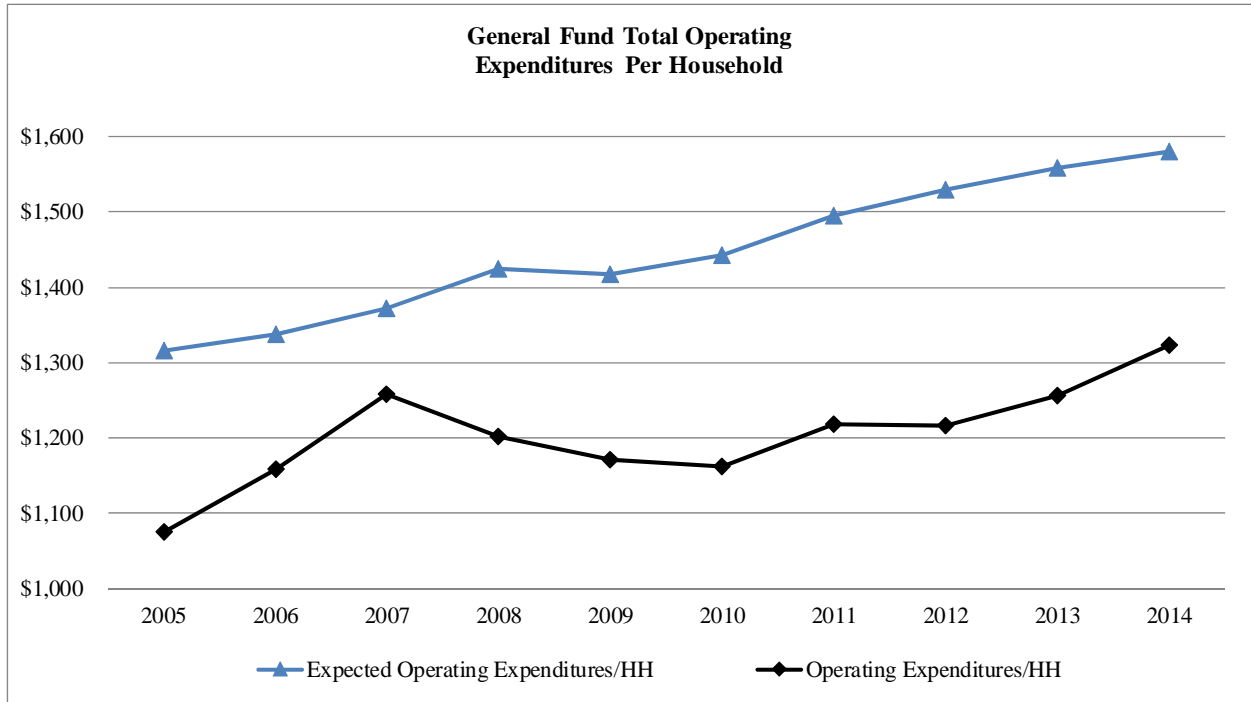
Maintain a level of property taxes on a per household basis which takes into account the cost of inflation and community growth. The goal is to have a tax levy per household that is at or below the rate of inflation over time. This chart reflects community growth and the cost of inflation using the Minneapolis-St.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



### 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 Finance Director, 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, 2014

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 19,450,660	\$ 7,352,545	\$ 26,803,205
Receivables			
Delinquent taxes	135,567	-	135,567
Accounts	363,432	157,606	521,038
Special assessments	2,767,226	24,557	2,791,783
Due from other governmental agencies	426,040	248,683	674,723
Prepaid items	710	-	710
Restricted assets – temporarily restricted			
Cash and investments held in escrow	2,677,924	-	2,677,924
Capital assets not being depreciated	72,619,767	122,581	72,742,348
Capital assets net of accumulated depreciation	48,456,496	46,504,603	94,961,099
	<u>\$ 146,897,822</u>	<u>\$ 54,410,575</u>	<u>\$ 201,308,397</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 1,045,572	\$ 157,466	\$ 1,203,038
Accrued salaries and employee benefits payable	375,161	46,057	421,218
Due to other governmental agencies	140,072	1,051,621	1,191,693
Deposits payable	976,747	3,500	980,247
Accrued interest payable	64,545	-	64,545
Unearned revenue	82,894	-	82,894
Long-term liabilities			
Due within one year	3,546,891	58,565	3,605,456
Due in more than one year	34,126,099	50,607	34,176,706
Total liabilities	40,357,981	1,367,816	41,725,797
<b>Net position</b>			
Net investment in capital assets	87,398,664	46,627,184	134,025,848
Restricted for debt service	3,938,656	-	3,938,656
Restricted for other purposes	1,012,166	-	1,012,166
Unrestricted	14,190,355	6,415,575	20,605,930
Total net position	<u>106,539,841</u>	<u>53,042,759</u>	<u>159,582,600</u>
	<u>\$ 146,897,822</u>	<u>\$ 54,410,575</u>	<u>\$ 201,308,397</u>

See notes to basic financial statements

CITY OF PRIOR LAKE

Statement of Activities  
Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 3,557,910	\$ 678,248	\$ 56,575	\$ 6,146
Public safety	5,230,546	854,403	1,297,797	57,141
Public works	4,227,440	–	–	5,614,905
Culture and recreation	2,229,987	204,818	–	239,380
Economic development	535,955	175,480	–	–
Interest on long-term debt	1,185,474	–	–	–
Total governmental activities	16,967,312	1,912,949	1,354,372	5,917,572
<b>Business-type activities</b>				
Water	2,297,197	3,051,682	–	319,737
Sewer	2,447,618	2,369,423	–	256,503
Water quality	638,570	843,292	162,041	–
Transit	1,099,899	215,138	721,038	–
Total business-type activities	6,483,284	6,479,535	883,079	576,240
<b>Total</b>	<b>\$ 23,450,596</b>	<b>\$ 8,392,484</b>	<b>\$ 2,237,451</b>	<b>\$ 6,493,812</b>

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

Net position – ending

See notes to basic financial statements

Net (Expense) Revenues and  
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,816,941)	\$ —	\$ (2,816,941)
(3,021,205)	—	(3,021,205)
1,387,465	—	1,387,465
(1,785,789)	—	(1,785,789)
(360,475)	—	(360,475)
(1,185,474)	—	(1,185,474)
<u>(7,782,419)</u>	<u>—</u>	<u>(7,782,419)</u>
—	1,074,222	1,074,222
—	178,308	178,308
—	366,763	366,763
—	(163,723)	(163,723)
<u>—</u>	<u>1,455,570</u>	<u>1,455,570</u>
(7,782,419)	1,455,570	(6,326,849)
7,712,310	—	7,712,310
1,744,716	—	1,744,716
594,800	—	594,800
466,480	—	466,480
52,555	—	52,555
756,967	355,290	1,112,257
204,641	5,782	210,423
612,622	(612,622)	—
—	(1,371,480)	(1,371,480)
<u>12,145,091</u>	<u>(1,623,030)</u>	<u>10,522,061</u>
4,362,672	(167,460)	4,195,212
<u>102,177,169</u>	<u>53,210,219</u>	<u>155,387,388</u>
<u>\$ 106,539,841</u>	<u>\$ 53,042,759</u>	<u>\$ 159,582,600</u>

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FUND FINANCIAL STATEMENTS



CITY OF PRIOR LAKE

Balance Sheet  
 Governmental Funds  
 as of December 31, 2014

	<u>General</u>	<u>DAG Special Revenue</u>	<u>Debt Service</u>
Assets			
Cash and investments	\$ 6,622,398	\$ 1,217,915	\$ 1,521,368
Cash held in escrow	-	-	-
Receivables			
Delinquent taxes	132,778	-	-
Accounts	306,201	-	8,935
Special assessments			
Delinquent	504	-	17,060
Deferred	17,452	-	2,028,922
Other (Green Acres)	-	-	692,597
Due from other governmental agencies	149,833	-	13,469
Prepays	710	-	-
	<u>710</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 7,229,876</u>	<u>\$ 1,217,915</u>	<u>\$ 4,282,351</u>
Liabilities and Fund Balances			
Liabilities			
Accounts and contracts payable	\$ 318,229	\$ 39,084	\$ -
Accrued salaries and employee benefits payable	372,319	-	-
Due to other governmental agencies	101,678	-	-
Deposits payable	469,322	497,425	-
Unearned revenue	49,144	-	-
Total liabilities	<u>1,310,692</u>	<u>536,509</u>	<u>-</u>
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	132,778	-	-
Unavailable revenue from special assessments	9,759	-	2,738,579
Total deferred inflows of resources	<u>142,537</u>	<u>-</u>	<u>2,738,579</u>
Fund balances			
Nonspendable	710	-	-
Restricted	-	-	1,543,772
Assigned	-	681,406	-
Unassigned, reported in			
General Fund	5,775,937	-	-
Capital project funds	-	-	-
Total fund balances	<u>5,776,647</u>	<u>681,406</u>	<u>1,543,772</u>
	<u>\$ 7,229,876</u>	<u>\$ 1,217,915</u>	<u>\$ 4,282,351</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,229,876</u>	<u>\$ 1,217,915</u>	<u>\$ 4,282,351</u>

See notes to basic financial statements

<u>Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,518,575	\$ 8,035,196	\$ 18,915,452
–	2,677,924	2,677,924
–	2,789	135,567
4,800	40,821	360,757
–	–	17,564
–	9,288	2,055,662
–	1,403	694,000
259,382	3,356	426,040
–	–	710
<u>\$ 1,782,757</u>	<u>\$ 10,770,777</u>	<u>\$ 25,283,676</u>
\$ 402,914	\$ 285,345	\$ 1,045,572
–	2,842	375,161
33,398	4,996	140,072
–	10,000	976,747
–	33,750	82,894
<u>436,312</u>	<u>336,933</u>	<u>2,620,446</u>
–	2,789	135,567
–	10,691	2,759,029
<u>–</u>	<u>13,480</u>	<u>2,894,596</u>
–	–	710
227,067	3,417,215	5,188,054
1,119,378	7,003,197	8,803,981
–	–	5,775,937
–	(48)	(48)
<u>1,346,445</u>	<u>10,420,364</u>	<u>19,768,634</u>
<u>\$ 1,782,757</u>	<u>\$ 10,770,777</u>	<u>\$ 25,283,676</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, 2014

Total fund balances – governmental funds	\$ 19,768,634
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	171,499,209
Less accumulated depreciation	(50,422,946)
Long-term liabilities are included in net position but are excluded from fund balances until due and payable.	
Bond principal payable	(33,640,000)
Energy loan payable	(2,667,924)
Net OPEB obligation	(143,314)
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.	
	(292,599)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	
	(64,545)
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	(391,270)
Certain revenues (including delinquent property taxes) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	
Delinquent property taxes	135,567
Special assessments	2,759,029
Total net position – governmental activities	<u>\$ 106,539,841</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, 2014

	<u>General</u>	<u>DAG Special Revenue</u>	<u>Debt Service</u>
<b>Revenues</b>			
Taxes	\$ 7,363,667	\$ -	\$ 1,744,716
Franchise taxes	594,800	-	-
Special assessments	10,798	-	590,533
Licenses and permits	580,112	-	-
Intergovernmental	1,626,194	-	-
Charges for services	1,047,397	181,531	-
Fines and forfeits	127,225	-	-
Interest on investments	230,464	-	108,156
Miscellaneous	290,068	-	-
Total revenues	<u>11,870,725</u>	<u>181,531</u>	<u>2,443,405</u>
<b>Expenditures</b>			
Current			
General government	2,813,759	-	-
Public safety	4,732,024	-	-
Public works	1,874,422	-	-
Culture and recreation	1,751,005	-	-
Economic development	-	-	-
Capital outlay	744,233	225,047	-
Debt service			
Principal	-	-	3,185,000
Interest and other	-	-	1,196,066
Total expenditures	<u>11,915,443</u>	<u>225,047</u>	<u>4,381,066</u>
Excess (deficiency) of revenues over expenditures	(44,718)	(43,516)	(1,937,661)
<b>Other financing sources (uses)</b>			
Debt issued	-	-	33,078
Refunding debt issued	-	-	495,000
Premium on debt issued	-	-	15,657
Paid to refunded bond escrow agent	-	-	(3,755,000)
Energy loan issued	-	-	-
Transfers in	481,762	-	1,867,777
Transfers out	(1,091,655)	-	(250,694)
Sale of assets	-	-	-
Total other financing sources (uses)	<u>(609,893)</u>	<u>-</u>	<u>(1,594,182)</u>
Net change in fund balances	(654,611)	(43,516)	(3,531,843)
<b>Fund balances</b>			
Beginning of year	<u>6,431,258</u>	<u>724,922</u>	<u>5,075,615</u>
End of year	<u>\$ 5,776,647</u>	<u>\$ 681,406</u>	<u>\$ 1,543,772</u>

See notes to basic financial statements

<u>Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 815,894	\$ 9,924,277
-	-	594,800
-	15,629	616,960
-	-	580,112
387,716	24,585	2,038,495
-	1,543,001	2,771,929
-	-	127,225
70,798	321,563	730,981
-	60,271	350,339
<u>458,514</u>	<u>2,780,943</u>	<u>17,735,118</u>
-	-	2,813,759
-	-	4,732,024
-	-	1,874,422
-	17,514	1,768,519
-	115,437	115,437
3,800,639	1,568,371	6,338,290
-	-	3,185,000
59,993	-	1,256,059
<u>3,860,632</u>	<u>1,701,322</u>	<u>22,083,510</u>
(3,402,118)	1,079,621	(4,348,392)
2,136,922	-	2,170,000
-	-	495,000
49,154	-	64,811
-	-	(3,755,000)
-	2,667,924	2,667,924
822,132	260,600	3,432,271
(19,156)	(181,330)	(1,542,835)
-	13,694	13,694
<u>2,989,052</u>	<u>2,760,888</u>	<u>3,545,865</u>
(413,066)	3,840,509	(802,527)
<u>1,759,511</u>	<u>6,579,855</u>	<u>20,571,161</u>
<u>\$ 1,346,445</u>	<u>\$ 10,420,364</u>	<u>\$ 19,768,634</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, 2014

Total net change in fund balances – governmental funds \$ (802,527)

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	5,276,611
Capital contributions	3,665,795
Depreciation expense	(3,212,874)

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.

(61,377)

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

(1,276,814)

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.

Principal repayments	6,940,000
Debt issued	(5,332,924)

Net OPEB obligations payable reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds until actually due.

(143,314)

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

7,746

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.

(1,972)

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

Internal service fund activity included in governmental activities	(11,561)
--	----------

Certain revenues (including delinquent property taxes) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.

Delinquent property taxes	(763)
Special assessments	(683,354)

Change in net position – governmental activities \$ 4,362,672

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, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes				
Property taxes	\$ 7,354,520	\$ 7,354,520	\$ 7,363,667	\$ 9,147
Franchise taxes	571,700	571,700	594,800	23,100
Special assessments	–	–	10,798	10,798
Licenses and permits	638,895	638,895	580,112	(58,783)
Intergovernmental	1,474,044	1,709,111	1,626,194	(82,917)
Charges for services	1,108,116	1,108,116	1,047,397	(60,719)
Fines and forfeits	155,000	155,000	127,225	(27,775)
Interest on investments	120,000	120,000	230,464	110,464
Miscellaneous	181,000	199,505	290,068	90,563
Total revenues	<u>11,603,275</u>	<u>11,856,847</u>	<u>11,870,725</u>	<u>13,878</u>
<b>Expenditures</b>				
Current				
General government	2,915,481	2,915,481	2,813,759	(101,722)
Public safety				
Police	3,351,084	3,357,004	3,384,777	27,773
Fire and rescue	856,412	856,412	783,459	(72,953)
Other	593,240	593,240	563,788	(29,452)
Public works	1,948,243	2,002,473	1,874,422	(128,051)
Culture and recreation	1,676,941	1,684,101	1,751,005	66,904
Capital outlay				
General government	318,893	318,893	271,417	(47,476)
Public safety				
Police	–	–	1,000	1,000
Fire and rescue	48,018	48,018	48,504	486
Culture and recreation	185,000	362,024	216,138	(145,886)
Economic development				
Contingency	–	215,621	207,174	(8,447)
Total expenditures	<u>11,893,312</u>	<u>12,353,267</u>	<u>11,915,443</u>	<u>(437,824)</u>
Excess (deficiency) of revenues over expenditures	(290,037)	(496,420)	(44,718)	451,702
<b>Other financing sources (uses)</b>				
Transfers in	348,540	462,606	481,762	19,156
Transfers out	<u>(1,091,943)</u>	<u>(1,091,943)</u>	<u>(1,091,655)</u>	<u>288</u>
Total other financing sources (uses)	<u>(743,403)</u>	<u>(629,337)</u>	<u>(609,893)</u>	<u>19,444</u>
Net change in fund balances	<u>\$ (1,033,440)</u>	<u>\$ (1,125,757)</u>	<u>(654,611)</u>	<u>\$ 471,146</u>
Fund balances, January 1			<u>6,431,258</u>	
Fund balances, December 31			<u>\$ 5,776,647</u>	

See notes to basic financial statements

CITY OF PRIOR LAKE

Statements of Net Position  
 Proprietary Funds  
 as of December 31, 2014 and 2013

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2014	2013	2014	2013
Assets				
Current assets				
Cash and investments	\$ 3,370,513	\$ 3,150,687	\$ 2,542,663	\$ 2,623,875
Receivables				
Accounts	62,660	55,979	69,696	64,224
Special assessments	24,557	5,229	–	–
Due from other governmental agencies	761	8,205	187	194
Total current assets	<u>3,458,491</u>	<u>3,220,100</u>	<u>2,612,546</u>	<u>2,688,293</u>
Noncurrent assets				
Capital assets not being depreciated	75,300	75,300	–	–
Depreciable capital assets	35,133,223	34,435,704	24,007,042	23,056,148
Accumulated depreciation	(7,322,526)	(6,828,506)	(6,169,688)	(5,791,417)
Total noncurrent assets	<u>27,885,997</u>	<u>27,682,498</u>	<u>17,837,354</u>	<u>17,264,731</u>
Total assets	<u>\$ 31,344,488</u>	<u>\$ 30,902,598</u>	<u>\$ 20,449,900</u>	<u>\$ 19,953,024</u>
Liabilities and Net Position				
Current liabilities				
Accounts and contracts payable	\$ 35,986	\$ 71,173	\$ 38,579	\$ 18,843
Accrued salaries and employee benefits payable	19,820	16,262	18,393	17,585
Due to other governmental agencies	30,090	9,071	4,855	3,662
Deposits payable	3,500	500	–	–
Current portion of compensated absences payable	25,886	19,422	25,860	18,735
Total current liabilities	<u>115,282</u>	<u>116,428</u>	<u>87,687</u>	<u>58,825</u>
Noncurrent liabilities				
Compensated absences payable	<u>37,206</u>	<u>37,196</u>	<u>13,401</u>	<u>24,826</u>
Total liabilities	152,488	153,624	101,088	83,651
Net position (deficit)				
Net investment in capital assets	27,885,997	27,682,498	17,837,354	17,264,731
Unrestricted	3,306,003	3,066,476	2,511,458	2,604,642
Total net position	<u>31,192,000</u>	<u>30,748,974</u>	<u>20,348,812</u>	<u>19,869,373</u>
Total liabilities and net position	<u>\$ 31,344,488</u>	<u>\$ 30,902,598</u>	<u>\$ 20,449,900</u>	<u>\$ 19,953,024</u>

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2014	2013	2014	2013	2014	2013	
\$ 542,333	\$ 287,389	\$ 897,036	\$ 1,545,614	\$ 7,352,545	\$ 7,607,565	\$ 535,208
17,479	14,840	7,771	6,449	157,606	141,492	2,675
–	–	–	–	24,557	5,229	–
93,892	7,601	153,843	141,971	248,683	157,971	–
653,704	309,830	1,058,650	1,694,034	7,783,391	7,912,257	537,883
47,281	–	–	–	122,581	75,300	–
1,065,240	840,830	–	–	60,205,505	58,332,682	–
(208,688)	(147,731)	–	–	(13,700,902)	(12,767,654)	–
903,833	693,099	–	–	46,627,184	45,640,328	–
<u>\$ 1,557,537</u>	<u>\$ 1,002,929</u>	<u>\$ 1,058,650</u>	<u>\$ 1,694,034</u>	<u>\$ 54,410,575</u>	<u>\$ 53,552,585</u>	<u>\$ 537,883</u>
\$ 22,537	\$ 4,634	\$ 60,364	\$ 61,320	\$ 157,466	\$ 155,970	\$ –
7,844	8,967	–	–	46,057	42,814	–
18,390	13,081	998,286	11,514	1,051,621	37,328	–
–	–	–	–	3,500	500	–
6,819	5,575	–	–	58,565	43,732	343,417
55,590	32,257	1,058,650	72,834	1,317,209	280,344	343,417
–	–	–	–	50,607	62,022	585,736
55,590	32,257	1,058,650	72,834	1,367,816	342,366	929,153
903,833	693,099	–	–	46,627,184	45,640,328	–
598,114	277,573	–	1,621,200	6,415,575	7,569,891	(391,270)
1,501,947	970,672	–	1,621,200	53,042,759	53,210,219	(391,270)
<u>\$ 1,557,537</u>	<u>\$ 1,002,929</u>	<u>\$ 1,058,650</u>	<u>\$ 1,694,034</u>	<u>\$ 54,410,575</u>	<u>\$ 53,552,585</u>	<u>\$ 537,883</u>

CITY OF PRIOR LAKE

Statements of Revenues, Expenses, and Changes in Net Position  
 Proprietary Funds  
 Years Ended December 31, 2014 and 2013

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2014	2013	2014	2013
Operating revenues				
Sewer charges	\$ –	\$ –	\$ 2,121,424	\$ 2,210,221
Water charges	2,700,496	2,865,971	–	–
Storm water charges	–	–	–	–
Capital facility charges	247,990	243,202	247,999	243,211
Meter sales	103,196	137,601	–	–
Transit charges	–	–	–	–
Charges for services	–	–	–	–
Total operating revenues	<u>3,051,682</u>	<u>3,246,774</u>	<u>2,369,423</u>	<u>2,453,432</u>
Operating expenses				
Personal services	648,782	530,477	642,637	583,932
Supplies	121,371	202,490	18,188	21,323
Repairs and maintenance	396,508	459,839	90,304	89,170
Other services and charges	109,314	134,755	62,615	43,403
Insurance	1,903	1,975	1,903	1,975
Utilities	381,216	229,917	36,380	35,956
Disposal charges	–	–	1,215,970	1,195,487
Miscellaneous	2,426	2,358	1,350	5,109
Depreciation	635,677	626,734	378,271	368,812
Total operating expenses	<u>2,297,197</u>	<u>2,188,545</u>	<u>2,447,618</u>	<u>2,345,167</u>
Operating income (loss)	754,485	1,058,229	(78,195)	108,265
Nonoperating revenues (expenses)				
Intergovernmental	574	9,757	–	1,667
Interest income (losses)	149,359	(72,851)	108,826	(60,504)
Miscellaneous	5,782	3,109	–	–
Total nonoperating revenues (expenses)	<u>155,715</u>	<u>(59,985)</u>	<u>108,826</u>	<u>(58,837)</u>
Income (loss) before contributions, transfers, and special items	910,200	998,244	30,631	49,428
Capital contributions from other funds	520,013	404,951	694,391	48,997
Capital contributions to other funds	–	–	–	–
Capital contributions from developers	319,163	126,117	256,503	172,155
Transfers out	(1,306,350)	(1,556,856)	(502,086)	(355,268)
Special item – transfer of operations	–	–	–	–
Change in net position	443,026	(27,544)	479,439	(84,688)
Net position, January 1 (deficit)	<u>30,748,974</u>	<u>30,776,518</u>	<u>19,869,373</u>	<u>19,954,061</u>
Net position, December 31 (deficit)	<u>\$ 31,192,000</u>	<u>\$ 30,748,974</u>	<u>\$ 20,348,812</u>	<u>\$ 19,869,373</u>

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2014	2013	2014	2013	2014	2013	
\$ –	\$ –	\$ –	\$ –	\$ 2,121,424	\$ 2,210,221	\$ –
–	–	–	–	2,700,496	2,865,971	–
843,292	702,529	–	–	843,292	702,529	–
–	–	–	–	495,989	486,413	–
–	–	–	–	103,196	137,601	–
–	–	215,138	225,198	215,138	225,198	–
–	–	–	–	–	–	24,887
843,292	702,529	215,138	225,198	6,479,535	6,627,933	24,887
273,338	309,859	48,165	92,077	1,612,922	1,516,345	62,446
2,510	2,785	675	1,161	142,744	227,759	–
199,435	57,816	2,865	–	689,112	606,825	–
101,935	108,584	1,048,194	679,469	1,322,058	966,211	–
–	–	–	–	3,806	3,950	–
–	–	–	–	417,596	265,873	–
–	–	–	–	1,215,970	1,195,487	–
396	573	–	–	4,172	8,040	–
60,956	52,891	–	–	1,074,904	1,048,437	–
638,570	532,508	1,099,899	772,707	6,483,284	5,838,927	62,446
204,722	170,021	(884,761)	(547,509)	(3,749)	789,006	(37,559)
162,041	75,487	721,038	630,198	883,653	717,109	–
21,102	(8,955)	76,003	(40,123)	355,290	(182,433)	25,998
–	–	–	–	5,782	3,109	–
183,143	66,532	797,041	590,075	1,244,725	537,785	25,998
387,865	236,553	(87,720)	42,566	1,240,976	1,326,791	(11,561)
224,410	128,226	–	–	1,438,814	582,174	–
–	–	(162,000)	–	(162,000)	–	–
–	25,637	–	–	575,666	323,909	–
(81,000)	(207,000)	–	–	(1,889,436)	(2,119,124)	–
–	–	(1,371,480)	–	(1,371,480)	–	–
531,275	183,416	(1,621,200)	42,566	(167,460)	113,750	(11,561)
970,672	787,256	1,621,200	1,578,634	53,210,219	53,096,469	(379,709)
\$ 1,501,947	\$ 970,672	\$ –	\$ 1,621,200	\$ 53,042,759	\$ 53,210,219	\$ (391,270)

CITY OF PRIOR LAKE

Statements of Cash Flows  
 Proprietary Funds  
 Years Ended December 31, 2014 and 2013

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2014	2013	2014	2013
Cash flows from operating activities				
Cash received from customers	\$ 3,033,117	\$ 3,226,964	\$ 2,363,958	\$ 2,442,749
Cash payments to suppliers	(1,023,906)	(1,081,818)	(1,405,781)	(1,291,433)
Cash payments to employees	(638,750)	(530,203)	(646,129)	(578,530)
Net cash flows from operating activities	1,370,461	1,614,943	312,048	572,786
Cash flows from noncapital financing activities				
Cash received (paid) to other funds	–	(172)	–	(34)
Special item – transfer of operations	–	–	–	–
Intergovernmental	574	9,757	–	1,667
Transfers in (out)	(1,306,350)	(1,556,856)	(502,086)	(355,268)
Net cash flows from noncapital financing activities	(1,305,776)	(1,547,271)	(502,086)	(353,635)
Cash flows from capital and related financing activities				
Miscellaneous	5,782	3,109	–	–
Purchase of capital assets	–	(18,561)	–	–
Net cash flows from capital financing activities	5,782	(15,452)	–	–
Cash flows from investing activities				
Interest (losses) received on cash and investments	149,359	(72,851)	108,826	(60,504)
Net increase (decrease) in cash and cash equivalents	219,826	(20,631)	(81,212)	158,647
Cash and cash equivalents, January 1	3,150,687	3,171,318	2,623,875	2,465,228
Cash and cash equivalents, December 31	\$ 3,370,513	\$ 3,150,687	\$ 2,542,663	\$ 2,623,875

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2014	2013	2014	2013	2014	2013	
\$ 754,362	\$ 724,454	\$ 201,944	\$ 188,968	\$ 6,353,381	\$ 6,583,135	\$ 24,641
(281,064)	(190,430)	(1,052,690)	(679,531)	(3,763,441)	(3,243,212)	–
(273,217)	(305,964)	(48,165)	(118,095)	(1,606,261)	(1,532,792)	(74,746)
200,081	228,060	(898,911)	(608,658)	983,679	1,807,131	(50,105)
–	–	–	–	–	(206)	945
–	–	(384,708)	–	(384,708)	–	–
162,041	75,487	721,038	630,198	883,653	717,109	–
(81,000)	(207,000)	–	–	(1,889,436)	(2,119,124)	–
81,041	(131,513)	336,330	630,198	(1,390,491)	(1,402,221)	945
–	–	–	–	5,782	3,109	–
(47,280)	–	(162,000)	–	(209,280)	(18,561)	–
(47,280)	–	(162,000)	–	(203,498)	(15,452)	–
21,102	(8,955)	76,003	(40,123)	355,290	(182,433)	25,998
254,944	87,592	(648,578)	(18,583)	(255,020)	207,025	(23,162)
287,389	199,797	1,545,614	1,564,197	7,607,565	7,400,540	558,370
<u>\$ 542,333</u>	<u>\$ 287,389</u>	<u>\$ 897,036</u>	<u>\$ 1,545,614</u>	<u>\$ 7,352,545</u>	<u>\$ 7,607,565</u>	<u>\$ 535,208</u>

(continued)



CITY OF PRIOR LAKE

Statements of Cash Flows (continued)  
 Proprietary Funds  
 Years Ended December 31, 2014 and 2013

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2014	2013	2014	2013
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	\$ 754,485	\$ 1,058,229	\$ (78,195)	\$ 108,265
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Depreciation	635,677	626,734	378,271	368,812
(Increase) decrease in assets				
Accounts receivable	(6,681)	(10,799)	(5,472)	(10,951)
Special assessments receivable	(19,328)	(969)	–	–
Due from other governments	7,444	(8,042)	7	268
Prepaid items	–	–	–	99,624
Increase (decrease) in liabilities				
Accounts and contracts payable	(35,187)	(30,855)	19,736	(25)
Accrued salaries and employee benefits payable	3,558	1,382	808	3,026
Due to other governmental agencies	21,019	(19,629)	1,193	1,391
Deposits payable	3,000	–	–	–
Compensated absences payable	6,474	(1,108)	(4,300)	2,376
Net cash flows from operating activities	<u>\$ 1,370,461</u>	<u>\$ 1,614,943</u>	<u>\$ 312,048</u>	<u>\$ 572,786</u>
Schedule of noncash activities from capital and related financing activities				
Capital assets contributed from other funds	<u>\$ 520,013</u>	<u>\$ 404,951</u>	<u>\$ 694,391</u>	<u>\$ 48,997</u>
Capital assets contributed to other funds	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>
Capital assets contributed by developers	<u>\$ 319,163</u>	<u>\$ 126,117</u>	<u>\$ 256,503</u>	<u>\$ 172,155</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
2014	2013	2014	2013	2014	2013	
\$ 204,722	\$ 170,021	\$ (884,761)	\$ (547,509)	\$ (3,749)	\$ 789,006	\$ (37,559)
60,956	52,891	–	–	1,074,904	1,048,437	–
(2,639)	(4,397)	(1,322)	(241)	(16,114)	(26,388)	(246)
–	–	–	–	(19,328)	(969)	–
(86,291)	26,322	(11,872)	(35,989)	(90,712)	(17,441)	–
–	–	–	–	–	99,624	–
17,903	(6,676)	(956)	5,036	1,496	(32,520)	–
(1,123)	1,380	–	(2,877)	3,243	2,911	–
5,309	(13,996)	–	(3,937)	27,521	(36,171)	–
–	–	–	–	3,000	–	–
1,244	2,515	–	(23,141)	3,418	(19,358)	(12,300)
<u>\$ 200,081</u>	<u>\$ 228,060</u>	<u>\$ (898,911)</u>	<u>\$ (608,658)</u>	<u>\$ 983,679</u>	<u>\$ 1,807,131</u>	<u>\$ (50,105)</u>
<u>\$ 224,410</u>	<u>\$ 128,226</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,438,814</u>	<u>\$ 582,174</u>	<u>\$ –</u>
<u>\$ –</u>	<u>\$ –</u>	<u>\$ (162,000)</u>	<u>\$ –</u>	<u>\$ (162,000)</u>	<u>\$ –</u>	<u>\$ –</u>
<u>\$ –</u>	<u>\$ 25,637</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 575,666</u>	<u>\$ 323,909</u>	<u>\$ –</u>
<u>\$ –</u>	<u>\$ –</u>	<u>\$ 986,772</u>	<u>\$ –</u>	<u>\$ 986,772</u>	<u>\$ –</u>	<u>\$ –</u>

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## CITY OF PRIOR LAKE

Notes to Basic Financial Statements  
December 31, 2014

### 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 Council composed of an elected Mayor and four elected councilmembers. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete.

The 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 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 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, which are financed by the storm water surcharge, and ensure that user charges are sufficient to pay for those costs.

**Transit Fund** – This fund is used to account for the City's transit services, which are funded mainly by the Metropolitan Council.

## 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, commercial paper, 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 commercial paper, 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. 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 as 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 with federal insured institutions that are collateralized or insured in excess of the \$250,000 provided by the Federal Deposit Insurance Corporation (FDIC) coverage limit.
- 4) Money market accounts that are invested in above referenced government securities.
- 5) Commercial paper meeting the following requirements:
  - a. The corporation must be organized in the United States
  - b. The corporation's assets must exceed \$500,000,000
  - c. The obligations at the time of purchase must be rated at the highest classifications by at least two of the four standard rating services (Standard and Poor's, Duff and Phelps, Moody's, and Fitch Investors Service)
  - d. The obligations cannot have a maturity longer than 270 days
  - e. The total investment in any one corporation cannot exceed 10 percent of that corporation's outstanding obligations
  - f. The total investment in any one corporation cannot be more than \$2 million
- 6) Investments may only be made 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 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 10 percent of 5.

#### **C. Duration**

It is the policy of the City to require that all investment maturities shall not extend beyond 10 years in length. 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.



## **NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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.

### **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:

Assets	Useful Lives in Years
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. 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.

Vacation and sick leave are computed at year-end. Accrued vacation and sick leave totaled \$1,038,325 at year-end. Vacation and sick pay are accrued when incurred in proprietary funds and reported as long-term liabilities. The total liability in the enterprises funds is \$109,172. Vacation and sick pay of the Internal Service Fund totaled \$929,153 at year-end. The City has provided funding for these obligations in the Severance Compensation Internal Service Fund at a currently computed level of 60 percent.

### M. 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.

### N. 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.

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 government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from two sources: delinquent taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### O. 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.

### P. Net Position

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, liabilities, and deferred inflows of resources (if any). 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.”

### Q. 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.
- **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 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.

## **NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **R. 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, 2013, 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.

### **S. 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. Before September 15, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

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

### **T. 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.

### **U. 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 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. The City also carries commercial insurance for certain other risks of loss. Settled claims did not exceed insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage in 2014.

### **V. 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.

### **W. 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.

## NOTE 2 – CASH AND INVESTMENTS

### A. Components of Cash and Investments

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

Deposits	\$ 237,495
Investments	29,242,884
Cash on hand	<u>750</u>
Total	<u>\$ 29,481,129</u>

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

Cash and investments – Statement of Net Position	\$ 26,803,205
Restricted assets – temporarily restricted – cash and investments held in escrow	<u>2,677,924</u>
Total	<u>\$ 29,481,129</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 \$237,495 while the balance on the bank records was \$1,025,227. At December 31, 2014, all deposits were fully covered by federal depository insurance or collateral held by the City’s agent in the City’s name.

## 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. government securities	AA+	S&P	\$ –	\$ –	\$ 12,741,530	\$ 12,741,530
Local government securities	AAA	S&P	–	255,532	–	255,532
Local government securities	AA+	S&P	–	2,676,635	–	2,676,635
Total local government securities			–	2,932,167	–	2,932,167
Negotiable certificates of deposit	N/R	N/A	150,887	4,210,669	1,920,543	6,282,099
			<u>\$ 150,887</u>	<u>\$ 7,142,836</u>	<u>\$ 14,662,073</u>	21,955,796
Investment pools/mutual funds						
Minnesota Municipal Money Market Fund	N/R	N/A				2,600,833
Fidelity Treasury Portfolio – Class I	AAA	S&P				2,667,924
Wells Fargo Advantage Government Money Market	AAA	S&P				2,010,372
Northland Federated Treasury Cash Series	AAA	S&P				7,959
Total investment pools/mutual funds						<u>7,287,088</u>
Total investments						<u>\$ 29,242,884</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, 2014, the City had 15.3 and 22.5 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, 2014 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	\$ 31,818,978	\$ 256,831	\$ –	\$ –	\$ 32,075,809
Easements	31,120,861	2,540,318	–	–	33,661,179
Construction in progress	8,597,095	4,242,994	(34,249)	(5,923,061)	6,882,779
Total capital assets, not depreciated	71,536,934	7,040,143	(34,249)	(5,923,061)	72,619,767
Capital assets, depreciated					
Land improvements	2,092,508	62,486	–	–	2,154,994
Machinery and equipment	5,536,573	92,940	(5,350)	–	5,624,163
Vehicles	5,082,321	351,957	(201,933)	–	5,232,345
Infrastructure	79,826,813	1,394,880	–	4,646,247	85,867,940
Total capital assets, depreciated	92,538,215	1,902,263	(207,283)	4,646,247	98,879,442
Less accumulated depreciation on					
Land improvements	(1,296,806)	(77,868)	–	–	(1,374,674)
Machinery and equipment	(2,687,405)	(339,127)	5,350	–	(3,021,182)
Vehicles	(4,037,661)	(387,517)	174,805	–	(4,250,373)
Infrastructure	(39,368,355)	(2,408,362)	–	–	(41,776,717)
Total accumulated depreciation	(47,390,227)	(3,212,874)	180,155	–	(50,422,946)
Net capital assets, depreciated	45,147,988	(1,310,611)	(27,128)	4,646,247	48,456,496
Total capital assets, net	\$ 116,684,922	\$ 5,729,532	\$ (61,377)	\$ (1,276,814)	\$ 121,076,263

#### 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	–	–	47,281
Total capital assets, not depreciated	75,300	47,281	–	–	122,581
Capital assets, depreciated					
Land improvements	87,739	–	–	–	87,739
Machinery and equipment	964,524	175,101	(141,657)	–	997,968
Vehicles	302,245	–	–	–	302,245
Infrastructure	56,978,174	562,565	–	1,276,814	58,817,553
Total capital assets, depreciated	58,332,682	737,666	(141,657)	1,276,814	60,205,505
Less accumulated depreciation on					
Land improvements	(17,449)	(4,387)	–	–	(21,836)
Machinery and equipment	(662,260)	(39,103)	141,657	–	(559,706)
Vehicles	(279,240)	(7,265)	–	–	(286,505)
Infrastructure	(11,808,705)	(1,024,150)	–	–	(12,832,855)
Total accumulated depreciation	(12,767,654)	(1,074,905)	141,657	–	(13,700,902)
Net capital assets, depreciated	45,565,028	(337,239)	–	1,276,814	46,504,603
Total capital assets, net	\$ 45,640,328	\$ (289,958)	\$ –	\$ 1,276,814	\$ 46,627,184



**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

**C. Depreciation Expense by Function**

Depreciation expense for the year ended December 31, 2014 was charged to the following functions:

Governmental activities	
General government	\$ 445,098
Public safety	325,376
Public works	2,024,747
Culture and recreation	<u>417,653</u>
Total depreciation expense – governmental activities	<u>\$ 3,212,874</u>
Business-type activities	
Water	\$ 635,677
Sewer	378,271
Water quality	<u>60,957</u>
Total depreciation expense – business-type activities	<u>\$ 1,074,905</u>

**NOTE 4 – INTERFUND TRANSFERS**

A schedule of interfund transfers is as follows:

Transfers Out	Transfer In				Total
	Governmental			Nonmajor	
	General	Debt Service	Construction		
Governmental funds					
General	\$ –	\$ 1,007,055	\$ –	\$ 84,600	\$ 1,091,655
Debt service	114,066	136,628	–	–	250,694
Construction	19,156	–	–	–	19,156
Nonmajor	–	31,330	150,000	–	181,330
Proprietary funds					
Water	174,270	603,726	438,354	90,000	1,306,350
Sewer	174,270	89,038	173,778	65,000	502,086
Water quality	–	–	60,000	21,000	81,000
	<u>\$ 481,762</u>	<u>\$ 1,867,777</u>	<u>\$ 822,132</u>	<u>\$ 260,600</u>	<u>\$ 3,432,271</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

	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Balance – End of Year</u>
Governmental activities					
General obligation bonds					
Park Refunding Bonds of 2005	\$ 6,260,000	3.75–5.00%	09/01/2005	12/01/2017	\$ 2,245,000
Street Reconstruction Bonds of 2007	\$ 1,400,000	4.00%	05/15/2007	12/15/2017	485,000
Capital Improvement Plan Bonds	\$ 1,225,000	3.80–3.90%	08/01/2007	02/01/2017	425,000
Fire Hall Refunding Bonds 2011B	\$ 3,500,000	2.00–3.40%	12/14/2011	12/15/2031	3,500,000
Capital Improvement Refunding Bonds 2012A	\$ 9,825,000	2.00–2.70%	03/13/2012	12/15/2029	8,635,000
Total general obligation bonds					<u>\$ 15,290,000</u>
General obligation special assessment bonds					
Improvement Bonds of 2009A	\$ 1,700,000	1.10–3.50%	05/15/2009	12/15/2019	\$ 875,000
Improvement Bonds of 2010A	\$ 1,235,000	0.80–3.20%	05/26/2010	12/15/2020	755,000
Improvement Bonds of 2011A	\$ 2,950,000	1.80–2.50%	08/31/2011	12/15/2021	1,525,000
Improvement Bonds of 2011B	\$ 2,280,000	2.00–2.35%	12/14/2011	12/15/2022	1,860,000
Improvement Bonds of 2013A	\$ 3,240,000	2.00–2.65%	08/15/2013	12/15/2023	2,915,000
Improvement Bonds of 2014A	\$ 2,665,000	2.00–2.50%	09/15/2014	12/15/2024	2,665,000
Total general obligation special assessment bonds					<u>\$ 10,595,000</u>
Tax increment bonds					
Tax Increment Refunding Bonds of 2011A	\$ 290,000	1.80–3.00%	08/31/2011	12/15/2024	<u>\$ 245,000</u>
General obligation revenue bonds					
Water Treatment Plant Revenue Bonds of 2007A	\$ 8,500,000	4.00–4.20%	05/15/2007	12/15/2032	<u>\$ 7,510,000</u>
Energy loan payable	\$ 2,667,924	2.12%	12/08/2014	06/19/2025	<u>\$ 2,667,924</u>

### B. Changes in Long-Term Debt

	<u>Balance – Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance – End of Year</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
G.O. bonds	\$ 19,880,000	\$ –	\$ 4,590,000	\$ 15,290,000	\$ 1,515,000
G.O. special assessment bonds	9,885,000	2,665,000	1,955,000	10,595,000	1,355,000
G.O. tax increment bonds	270,000	–	25,000	245,000	20,000
G.O. revenue bonds	7,880,000	–	370,000	7,510,000	220,000
Premium (discount) on bonds payable	290,627	64,811	62,839	292,599	–
Total bonds payable, net of premium (discount)	<u>38,205,627</u>	<u>2,729,811</u>	<u>7,002,839</u>	<u>33,932,599</u>	<u>3,110,000</u>
Energy loan payable	–	2,667,924	–	2,667,924	93,474
Compensated absences payable	941,453	61,471	73,771	929,153	343,417
Net OPEB obligation	–	158,749	15,435	143,314	–
Governmental activities long-term liabilities	<u>\$ 39,147,080</u>	<u>\$ 5,617,955</u>	<u>\$ 7,092,045</u>	<u>\$ 37,672,990</u>	<u>\$ 3,546,891</u>
Business-type activities					
Compensated absences payable	\$ 105,754	\$ 11,599	\$ 8,181	\$ 109,172	\$ 58,565

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**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
2015	\$ 1,515,000	\$ 430,755	\$ 1,355,000	\$ 251,110	\$ 20,000	\$ 5,880	\$ 220,000	\$ 306,514	\$ 93,474	\$ 56,833
2016	1,625,000	375,270	1,380,000	209,565	20,000	5,520	240,000	297,714	247,365	53,249
2017	1,645,000	313,350	1,380,000	180,020	20,000	5,160	260,000	288,114	252,634	47,980
2018	610,000	254,475	1,415,000	150,163	25,000	4,800	280,000	277,714	258,016	42,598
2019	635,000	242,275	1,300,000	117,988	25,000	4,300	300,000	266,514	263,512	37,102
2020–2024	3,755,000	1,001,570	3,765,000	215,172	135,000	12,188	1,875,000	1,132,569	1,404,192	98,877
2025–2029	4,890,000	516,420	–	–	–	–	2,500,000	704,238	148,731	1,575
2030–2032	615,000	31,620	–	–	–	–	1,835,000	156,868	–	–
	<u>\$ 15,290,000</u>	<u>\$ 3,165,735</u>	<u>\$ 10,595,000</u>	<u>\$ 1,124,018</u>	<u>\$ 245,000</u>	<u>\$ 37,848</u>	<u>\$ 7,510,000</u>	<u>\$ 3,430,245</u>	<u>\$ 2,667,924</u>	<u>\$ 338,214</u>

**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.

**NOTE 5 – LONG TERM DEBT (CONTINUED)**

**Refunding Bonds** – In 2011, the City issued \$5,780,000 of General Obligation Bonds, Series 2011B. A portion of the bond issue is a crossover refunding of the 2006A Fire Hall Bonds. The new bonds have an average coupon rate of 2.9 percent compared to the 4.5 percent average coupon rate of the old bonds. The proceeds of the new bonds were deposited in an escrow account pending the call date. The escrow investments beared interest rates that provided sufficient funds to refund the old bonds on December 15, 2014. The escrow account also provided debt service payments on the new bonds until the crossover date. The old bonds were considered defeased on the crossover date and, therefore, were removed as a liability on that date. As a result of the crossover refunding issue, the City saved \$160,514 in debt service payments and achieved an economic gain (the present value of the difference between the old and the new debt service) of \$163,048.

In 2014, the City issued \$2,665,000 of General Obligation Bonds, Series 2014A. A portion of the bond issue is a refunding of the 2008B Street Improvement Bonds. The new bonds have an average coupon rate of 2.0 percent compared to the 3.3 percent average coupon rate of the old bonds. The proceeds of the new bonds were deposited in an escrow account on September 15, 2014, the closing date. The escrow account provided sufficient funds to refund the old bonds on December 15, 2014. As a result of the refunding issue, the City saved \$63,739 in debt service payments and achieved an economic gain (the present value of the difference between the old and the new debt service) of \$25,731.

**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.

**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, 2014 is \$28,195,000.

**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	\$ 282,848	\$ 31,330	\$ 94,280
Water Treatment Plant Revenue Bonds of 2007A	Water Treatment Facility	Utility charges	100%	2006–2032	\$ 10,940,245	\$ 514,514	\$ 3,051,682

**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 \$2,590,697,300, which calculates to a debt margin of \$77,720,919. 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 \$15,290,000 of general obligation debt outstanding, leaving a debt margin of \$62,430,919.

**NOTE 5 – LONG TERM DEBT (CONTINUED)**

**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, 2014, 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	\$ 710	\$ –	\$ –	\$ –	\$ –	\$ 710
Restricted						
Future debt service	–	–	1,543,772	–	–	1,543,772
Capital improvements	–	–	–	227,067	2,643,774	2,870,841
Economic development	–	–	–	–	211,300	211,300
Tax increment	–	–	–	–	449,369	449,369
Forfeiture sales	–	–	–	–	112,772	112,772
Total restricted	–	–	1,543,772	227,067	3,417,215	5,188,054
Assigned						
Capital improvements	–	–	–	1,119,378	6,779,929	7,899,307
Development	–	681,406	–	–	157,176	838,582
Communications	–	–	–	–	66,092	66,092
Total assigned	–	681,406	–	1,119,378	7,003,197	8,803,981
Unassigned						
	5,775,937	–	–	–	(48)	5,775,889
Total	<u>\$ 5,776,647</u>	<u>\$ 681,406</u>	<u>\$ 1,543,772</u>	<u>\$ 1,346,445</u>	<u>\$ 10,420,364</u>	<u>\$ 19,768,634</u>

At December 31, 2014, the Tax Increment 1-4 River Vet Capital Projects Fund had a deficit fund balance of \$48.

## **NOTE 6 – FUND BALANCES (CONTINUED)**

### **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, 2014, the unrestricted fund balance of the General Fund was 46 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**

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees' Retirement Association (PERA) of Minnesota. PERA administers the General Employees' Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement 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.

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

Two methods are used to compute benefits for PERA’s Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 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 of service 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 PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

**B. Funding Policy**

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2 percent of their annual covered salary in 2014. In 2014, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.25 percent for Coordinated Plan members, and 15.3 percent for PEPFF members. The City’s contributions for the past three years ending December 31, which were equal to the contractually required contributions for each year as set by state statutes, were as follows:

	<u>GERF</u>	<u>PEPFF</u>
2014	\$ 305,548	\$ 341,479
2013	\$ 282,357	\$ 308,015
2012	\$ 271,623	\$ 282,433

Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5 percent for members and 7.5 percent for employers) and the PEPFF (10.8 percent for members and 16.2 percent for employers).

**NOTE 8 – VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION – SINGLE EMPLOYER PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)**

**A. Plan Description**

The Prior Lake Fire Department Firefighter’s Relief and Pension Association (the Association) is the administrator of a single-employer defined benefit Public Employee Retirement System (PERS) established to provide benefits for members of the Prior Lake Fire Department (the Department) and is administered in accordance with Minnesota Statute § 69. The Association maintains a separate Special Fund to accumulate assets to fund the retirement benefits earned by the Department’s membership.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Association.

**B. Pension Benefits**

***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, \$6,500 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 years 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 years 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 \$6,500 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 ten (10) years of service, the sum of \$6,500 for each year that they served as an active member of the Department.



**NOTE 8 – VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION – SINGLE EMPLOYER PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS) (CONTINUED)**

**C. Annual Pension Cost (APC)**

The City’s annual pension cost (APC) and related information as of December 31, 2013 (the most current data available) is as follows:

APC	\$	282,346
Contributions made		
City	\$	78,990
State aid	\$	203,356
Actuarial valuation date		12/31/2013
Actuarial cost method		Entry age method
Amortization method		Level dollar closed
Remaining amortization period		
Normal cost		20 years
Prior service cost		10 years
Asset valuation method		Market
Actuarial assumptions		
Investment rate of return		7.5%
Projected salary increases		N/A
Inflation rate		N/A
Cost of living adjustments		None

N/A – Not Applicable

**D. Three-Year Trend Information**

Three-Year Trend Information			
Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation
12/31/2013	\$ 282,346	100.00 %	\$ –
12/31/2012	\$ 222,863	100.00 %	\$ –
12/31/2011	\$ 240,586	100.00 %	\$ –

The City makes excess voluntary contributions annually, which, according to Minnesota Statutes, cannot be used to offset the actuarially required amount. As a result, the percentage of APC contributed may be over 100 percent. These excess voluntary contributions will be used for the future increases in benefits for the Association’s members.

**NOTE 8 – VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION – SINGLE EMPLOYER PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS) (CONTINUED)**

**E. Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Required Supplementary Information			Benefit per Year of Service
		Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	
12/31/2014	*	*	*	*	*
12/31/2013	\$ 3,301,229	\$ 2,902,441	\$ 398,788	113.7%	\$ 6,500
12/31/2012	\$ 2,650,519	\$ 2,665,512	\$ (14,993)	99.4%	\$ 6,500
12/31/2011	\$ 2,548,946	\$ 2,843,178	\$ (294,232)	89.7%	\$ 6,500

\* Information is currently unavailable

**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.

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

**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	\$ 159,526
Interest on net OPEB obligation	–
Adjustment to ARC	(777)
Annual OPEB cost	<u>158,749</u>
Contributions made	<u>(15,435)</u>
Increase in net OPEB obligation	143,314
Net OPEB obligation – beginning of year	<u>–</u>
Net OPEB obligation – end of year	<u><u>\$ 143,314</u></u>

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:

Year Ended December 31,	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
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 immediately 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.

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

### 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, 2014, the Internal Service Fund had a deficit net position of \$391,270. This deficit will be eliminated by future charges for services. The Tax Increment 1-4 River Vet Nonmajor Capital Project Fund had a deficit fund balance of \$48.

## NOTE 11 – JOINT POWERS AGREEMENT

The City is a member of a joint powers agreement, together with the cities of Belle Plaine, Elko New Market, Jordan, New Prague, Savage, and Shakopee, to provide for the joint exercise of prosecutorial powers. The cities of Belle Plain, Elko New Market, Jordan, New Prague, Savage, Shakopee, and the City each shall appoint one individual to serve on the Scott Joint Prosecution Association Board (the Board). Each member city contributes funds to cover their city's proportionate share of the costs of performing prosecution services. Contributions made by member cities for 2014 are as follows:

	<u>Contribution</u>	<u>Percentage</u>
City of Belle Plaine	\$ 39,078	6.0 %
City of Elko New Market	16,321	2.5
City of Jordan	32,206	4.9
City of New Prague	48,626	7.4
City of Prior Lake	159,648	24.3
City of Savage	104,206	15.9
City of Shakopee	256,365	39.0
	<u>\$ 656,450</u>	<u>100.0 %</u>

The Board issues a publicly available financial report at the Savage City Hall, 6000 McColl Drive, Savage, Minnesota 55378.

## **NOTE 12 – 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 2014, the City awarded contracts for various construction and remodeling projects. The City's commitment for uncompleted work on these contracts at December 31, 2014 is \$206,959.

## **NOTE 13 – FUTURE CHANGE IN ACCOUNTING STANDARDS**

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for fiscal years beginning after June 15, 2014. The City has not yet determined the financial impact of adopting this new standard.

## **NOTE 14 – 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. The transfer of the assets, liabilities, and net position 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 on the date the MVTA becomes obligated for the operation transferred.

## **NOTE 15 – SUBSEQUENT EVENT**

In May 2015, the City issued \$10,000,000 of General Obligation Bonds, Series 2015A. This bond issue has two components, \$4,640,000 to finance the construction of various public improvements and \$5,360,000 to refund the 2023 through 2032 maturities of the Series 2007A bond issue. These bonds will bear interest rates ranging from 1.00 to 3.00 percent and has a final maturity of December 15, 2031.

In May 2015, the City also issued \$2,490,000 of Taxable General Obligation Bonds, Series 2015B, which bear interest rates ranging from 1.00 to 2.25 percent and have a final maturity of December 15, 2022. The proceeds of this issue will be used to finance construction of various public improvements, including street reconstruction improvements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PRIOR LAKE

Required Supplementary Information

Volunteer Fire Department Firefighter's Relief and Pension Association  
Schedule of Funding Progress

Actuarial Valuation Date – December 31,	Actuarial Value of Assets	Actuarial Accrued Liability	Excess of (Unfunded) Accrued Liability	Funded Ratio
2014	*	*	*	*
2013	\$ 3,301,229	\$ 2,902,441	\$ 398,788	113.7%
2012	\$ 2,650,519	\$ 2,665,512	\$ (14,993)	99.4%
2011	\$ 2,548,946	\$ 2,843,178	\$ (294,232)	89.7%

City of Prior Lake  
Other Post-Employment Benefits Plan  
Schedule of Funding Progress

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

\* Information is currently unavailable

SUPPLEMENTAL INFORMATION



CITY OF PRIOR LAKE

Nonmajor Governmental Funds  
 Combining Balance Sheet  
 as of December 31, 2014

	Special Revenue	Capital Projects	Total
<b>Assets</b>			
Cash and investments	\$ 1,115,732	\$ 6,919,464	\$ 8,035,196
Cash held in escrow	10,000	2,667,924	2,677,924
<b>Receivables</b>			
Delinquent taxes	1,822	967	2,789
Accounts	12,980	27,841	40,821
<b>Special assessments</b>			
Deferred	-	9,288	9,288
Other (Green Acres)	-	1,403	1,403
Due from other governmental agencies	878	2,478	3,356
<b>Total assets</b>	<b>\$ 1,141,412</b>	<b>\$ 9,629,365</b>	<b>\$ 10,770,777</b>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 4,424	\$ 280,921	\$ 285,345
Accrued salaries and employee benefits payable	2,842	-	2,842
Due to other governmental agencies	414	4,582	4,996
Deposits payable	10,000	-	10,000
Unearned revenue	33,750	-	33,750
<b>Total liabilities</b>	<b>51,430</b>	<b>285,503</b>	<b>336,933</b>
<b>Deferred inflows of resources</b>			
Unavailable revenue from delinquent taxes	1,822	967	2,789
Unavailable revenue from special assessments	-	10,691	10,691
<b>Total deferred inflows of resources</b>	<b>1,822</b>	<b>11,658</b>	<b>13,480</b>
<b>Fund balances (deficit)</b>			
Restricted	211,300	3,205,915	3,417,215
Assigned	876,860	6,126,337	7,003,197
Unassigned	-	(48)	(48)
<b>Total fund balances</b>	<b>1,088,160</b>	<b>9,332,204</b>	<b>10,420,364</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,141,412</b>	<b>\$ 9,629,365</b>	<b>\$ 10,770,777</b>

CITY OF PRIOR LAKE

Nonmajor Governmental Funds  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Year Ended December 31, 2014

	Special Revenue	Capital Projects	Total
Revenue			
Taxes	\$ 149,950	\$ 665,944	\$ 815,894
Special assessments	-	15,629	15,629
Intergovernmental	-	24,585	24,585
Charges for services	289,144	1,253,857	1,543,001
Interest on investments	35,912	285,651	321,563
Miscellaneous			
Contributions and donations	3,130	-	3,130
Other	-	57,141	57,141
Total revenue	<u>478,136</u>	<u>2,302,807</u>	<u>2,780,943</u>
Expenditures			
Current			
Culture and recreation	17,514	-	17,514
Economic development	115,437	-	115,437
Capital outlay	901	1,567,470	1,568,371
Total expenditures	<u>133,852</u>	<u>1,567,470</u>	<u>1,701,322</u>
Excess of revenues over expenditures	344,284	735,337	1,079,621
Other financing sources (uses)			
Energy loan issued	-	2,667,924	2,667,924
Transfers in	34,600	226,000	260,600
Transfers out	-	(181,330)	(181,330)
Sale of assets	-	13,694	13,694
Total other financing sources (uses)	<u>34,600</u>	<u>2,726,288</u>	<u>2,760,888</u>
Net change in fund balances	378,884	3,461,625	3,840,509
Fund balances			
Beginning of year	<u>709,276</u>	<u>5,870,579</u>	<u>6,579,855</u>
End of year	<u>\$ 1,088,160</u>	<u>\$ 9,332,204</u>	<u>\$ 10,420,364</u>

CITY OF PRIOR LAKE

Nonmajor Special Revenue Funds  
 Combining Balance Sheet  
 as of December 31, 2014

	Capital Park	ED Revolving Loan	Revolving Loan
<b>Assets</b>			
Cash and investments	\$ 686,380	\$ 118,425	\$ 91,964
Cash held in escrow	-	-	-
Receivables			
Delinquent taxes	-	-	-
Accounts	1,336	513	398
Due from other governmental agencies	-	-	-
	<u>687,716</u>	<u>118,938</u>	<u>92,362</u>
Total assets	<u>\$ 687,716</u>	<u>\$ 118,938</u>	<u>\$ 92,362</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 374	\$ -	\$ -
Accrued salaries and employee benefits payable	-	-	-
Due to other governmental agencies	-	-	-
Deposits payable	-	-	-
Unearned revenue	33,750	-	-
Total liabilities	<u>34,124</u>	<u>-</u>	<u>-</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue from delinquent taxes	-	-	-
<b>Fund balances</b>			
Restricted for economic development	-	118,938	92,362
Assigned for capital improvements	653,592	-	-
Assigned for development	-	-	-
Assigned for communications	-	-	-
Total fund balances	<u>653,592</u>	<u>118,938</u>	<u>92,362</u>
	<u>\$ 687,716</u>	<u>\$ 118,938</u>	<u>\$ 92,362</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 687,716</u>	<u>\$ 118,938</u>	<u>\$ 92,362</u>

Cable Franchise	EDA	Total
\$ 66,092	\$ 152,871	\$ 1,115,732
10,000	-	10,000
-	1,822	1,822
-	10,733	12,980
-	878	878
<u>\$ 76,092</u>	<u>\$ 166,304</u>	<u>\$ 1,141,412</u>
\$ -	\$ 4,050	\$ 4,424
-	2,842	2,842
-	414	414
10,000	-	10,000
-	-	33,750
<u>10,000</u>	<u>7,306</u>	<u>51,430</u>
-	1,822	1,822
-	-	211,300
-	-	653,592
-	157,176	157,176
66,092	-	66,092
<u>66,092</u>	<u>157,176</u>	<u>1,088,160</u>
<u>\$ 76,092</u>	<u>\$ 166,304</u>	<u>\$ 1,141,412</u>

CITY OF PRIOR LAKE

Nonmajor Special Revenue Funds  
 Combining Statement of Revenues, Expenditures,  
 and Changes in Fund Balances  
 Year Ended December 31, 2014

	<u>Capital Park</u>	<u>ED Revolving Loan</u>	<u>Revolving Loan</u>
Revenues			
Taxes	\$           –	\$           –	\$           –
Charges for services	257,835	–	–
Interest on investments	23,533	5,220	4,054
Miscellaneous			
Contributions and donations	3,130	–	–
Total revenues	<u>284,498</u>	<u>5,220</u>	<u>4,054</u>
Expenditures			
Current			
Culture and recreation	17,514	–	–
Economic development	–	–	–
Capital outlay	751	–	–
Total expenditures	<u>18,265</u>	<u>–</u>	<u>–</u>
Excess (deficiency) of revenues over expenditures	266,233	5,220	4,054
Other financing sources			
Transfers in	<u>–</u>	<u>–</u>	<u>–</u>
Net change in fund balances	266,233	5,220	4,054
Fund balances			
Beginning of year	<u>387,359</u>	<u>113,718</u>	<u>88,308</u>
End of year	<u>\$ 653,592</u>	<u>\$ 118,938</u>	<u>\$ 92,362</u>

<u>Cable Franchise</u>	<u>EDA</u>	<u>Total</u>
\$ -	\$ 149,950	\$ 149,950
25,670	5,639	289,144
-	3,105	35,912
-	-	3,130
25,670	158,694	478,136
-	-	17,514
-	115,437	115,437
-	150	901
-	115,587	133,852
25,670	43,107	344,284
-	34,600	34,600
25,670	77,707	378,884
40,422	79,469	709,276
\$ 66,092	\$ 157,176	\$ 1,088,160

CITY OF PRIOR LAKE

Nonmajor Capital Projects Funds  
 Combining Balance Sheet  
 as of December 31, 2014

	<u>Tax Increment</u>	<u>Revolving Equipment</u>	<u>Trunk Reserve</u>
<b>Assets</b>			
Cash and investments	\$ 76,212	\$ 1,329,539	\$ 2,180,142
Cash held in escrow	-	-	-
Receivables			
Delinquent taxes	-	-	-
Accounts	936	6,245	9,011
Special assessments			
Deferred	-	-	1,960
Other (Green Acres)	-	-	1,403
Due from other governmental agencies	-	1,243	-
<b>Total assets</b>	<u>\$ 77,148</u>	<u>\$ 1,337,027</u>	<u>\$ 2,192,516</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 3,060	\$ 53,090	\$ -
Due to other governmental agencies	-	-	-
<b>Total liabilities</b>	<u>3,060</u>	<u>53,090</u>	<u>-</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue from delinquent taxes	-	-	-
Unavailable revenue from special assessments	-	-	3,363
<b>Total deferred inflows of resources</b>	<u>-</u>	<u>-</u>	<u>3,363</u>
<b>Fund balances</b>			
Restricted for tax increment	74,088	-	-
Restricted for forfeiture sales	-	112,772	-
Restricted for future capital improvements	-	-	-
Assigned for capital improvements	-	1,171,165	2,189,153
Unassigned (deficit in restricted balance)	-	-	-
<b>Total fund balances</b>	<u>74,088</u>	<u>1,283,937</u>	<u>2,189,153</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 77,148</u>	<u>\$ 1,337,027</u>	<u>\$ 2,192,516</u>

<u>Street Oversizing</u>	<u>Water Storage</u>	<u>Tax Increment 1-3 Lakefront</u>	<u>Tax Increment 3-1 Creekside</u>	<u>Tax Increment 4-1 Onsite</u>
\$ 784,445	\$ 950,481	\$ 133,082	\$ 108,846	\$ 4,582
-	-	-	-	-
-	-	967	-	-
3,036	2,519	500	330	-
7,328	-	-	-	-
-	-	-	-	-
-	-	1,235	-	-
<u>\$ 794,809</u>	<u>\$ 953,000</u>	<u>\$ 135,784</u>	<u>\$ 109,176</u>	<u>\$ 4,582</u>
\$ -	\$ -	\$ 36,403	\$ 32,283	\$ -
-	-	-	-	4,582
-	-	36,403	32,283	4,582
-	-	967	-	-
7,328	-	-	-	-
<u>7,328</u>	<u>-</u>	<u>967</u>	<u>-</u>	<u>-</u>
-	-	98,414	76,893	-
-	-	-	-	-
-	-	-	-	-
787,481	953,000	-	-	-
-	-	-	-	-
<u>787,481</u>	<u>953,000</u>	<u>98,414</u>	<u>76,893</u>	<u>-</u>
<u>\$ 794,809</u>	<u>\$ 953,000</u>	<u>\$ 135,784</u>	<u>\$ 109,176</u>	<u>\$ 4,582</u>

(continued)



CITY OF PRIOR LAKE

Nonmajor Capital Projects Funds  
 Combining Balance Sheet (continued)  
 as of December 31, 2014

	Tax Increment 5-1 Premiere	Tax Increment 6-1 Shepards Path	Tax Increment 1-4 River Vet
<b>Assets</b>			
Cash and investments	\$ 9,835	\$ 318,147	\$ 3,154
Cash held in escrow	-	-	-
Receivables			
Delinquent taxes	-	-	-
Accounts	21	710	(6)
Special assessments			
Deferred	-	-	-
Other (Green Acres)	-	-	-
Due from other governmental agencies	-	-	-
<b>Total assets</b>	<b>\$ 9,856</b>	<b>\$ 318,857</b>	<b>\$ 3,148</b>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 4,948	\$ 123,791	\$ 3,196
Due to other governmental agencies	-	-	-
<b>Total liabilities</b>	<b>4,948</b>	<b>123,791</b>	<b>3,196</b>
<b>Deferred inflows of resources</b>			
Unavailable revenue from delinquent taxes	-	-	-
Unavailable revenue from special assessments	-	-	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances (deficit)</b>			
Restricted for tax increment	4,908	195,066	-
Restricted for forfeiture sales	-	-	-
Restricted for future capital improvements	-	-	-
Assigned for capital improvements	-	-	-
Unassigned (deficit in restricted balance)	-	-	(48)
<b>Total fund balances (deficit)</b>	<b>4,908</b>	<b>195,066</b>	<b>(48)</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 9,856</b>	<b>\$ 318,857</b>	<b>\$ 3,148</b>

Revolving Park Equipment	Facility Management	Total
\$ 380,041	\$ 640,958	\$ 6,919,464
-	2,667,924	2,667,924
-	-	967
1,471	3,068	27,841
-	-	9,288
-	-	1,403
-	-	2,478
<u>\$ 381,512</u>	<u>\$ 3,311,950</u>	<u>\$ 9,629,365</u>
\$ -	\$ 24,150	\$ 280,921
-	-	4,582
-	24,150	285,503
-	-	967
-	-	10,691
-	-	11,658
-	-	449,369
-	-	112,772
-	2,643,774	2,643,774
381,512	644,026	6,126,337
-	-	(48)
<u>381,512</u>	<u>3,287,800</u>	<u>9,332,204</u>
<u>\$ 381,512</u>	<u>\$ 3,311,950</u>	<u>\$ 9,629,365</u>

CITY OF PRIOR LAKE

Nonmajor Capital Projects Funds  
 Combining Statement of Revenues, Expenditures,  
 and Changes in Fund Balances  
 Year Ended December 31, 2014

	<u>Tax Increment</u>	<u>Revolving Equipment</u>	<u>Trunk Reserve</u>
Revenues			
Taxes	\$ -	\$ 199,888	\$ -
Special assessments	-	-	7,560
Intergovernmental	-	24,585	-
Charges for services	-	-	878,787
Interest (losses) on investments	8,807	62,908	81,854
Miscellaneous			
Other	-	57,141	-
Total revenues	<u>8,807</u>	<u>344,522</u>	<u>968,201</u>
Expenditures			
Capital outlay	<u>145,467</u>	<u>668,010</u>	<u>301,108</u>
Excess (deficiency) of revenues over expenditures	(136,660)	(323,488)	667,093
Other financing sources (uses)			
Energy lease issued	-	-	-
Transfers in	-	131,000	-
Transfers out	-	-	-
Sale of assets	-	13,694	-
Total other financing sources (uses)	<u>-</u>	<u>144,694</u>	<u>-</u>
Net change in fund balances	(136,660)	(178,794)	667,093
Fund balances (deficit)			
Beginning of year	<u>210,748</u>	<u>1,462,731</u>	<u>1,522,060</u>
End of year	<u>\$ 74,088</u>	<u>\$ 1,283,937</u>	<u>\$ 2,189,153</u>

<u>Street Oversizing</u>	<u>Water Storage</u>	<u>Tax Increment 1-3 Lakefront</u>	<u>Tax Increment 3-1 Creekside</u>	<u>Tax Increment 4-1 Onsite</u>
\$ -	\$ -	\$ 94,280	\$ 71,739	\$ 6,847
3,029	5,040	-	-	-
-	-	-	-	-
220,070	155,000	-	-	-
35,894	36,653	4,897	3,644	196
-	-	-	-	-
<u>258,993</u>	<u>196,693</u>	<u>99,177</u>	<u>75,383</u>	<u>7,043</u>
14,241	-	72,722	65,083	11,263
244,752	196,693	26,455	10,300	(4,220)
-	-	-	-	-
-	-	-	-	-
(150,000)	-	(31,330)	-	-
-	-	-	-	-
<u>(150,000)</u>	<u>-</u>	<u>(31,330)</u>	<u>-</u>	<u>-</u>
94,752	196,693	(4,875)	10,300	(4,220)
692,729	756,307	103,289	66,593	4,220
<u>\$ 787,481</u>	<u>\$ 953,000</u>	<u>\$ 98,414</u>	<u>\$ 76,893</u>	<u>\$ -</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, 2014

	Tax Increment 5-1 Premiere	Tax Increment 6-1 Shepards Path	Tax Increment 1-4 River Vet
Revenues			
Taxes	\$ 10,996	\$ 275,092	\$ 7,102
Special assessments	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Interest (losses) on investments	200	7,641	(4)
Miscellaneous			
Other	-	-	-
Total revenues	<u>11,196</u>	<u>282,733</u>	<u>7,098</u>
Expenditures			
Capital outlay	<u>10,415</u>	<u>248,101</u>	<u>6,910</u>
Excess (deficiency) of revenues over expenditures	781	34,632	188
Other financing sources (uses)			
Energy lease issued	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Sale of assets	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	781	34,632	188
Fund balances (deficit)			
Beginning of year	<u>4,127</u>	<u>160,434</u>	<u>(236)</u>
End of year	<u>\$ 4,908</u>	<u>\$ 195,066</u>	<u>\$ (48)</u>

<u>Revolving Park Equipment</u>	<u>Facility Management</u>	<u>Total</u>
\$       –	\$       –	\$    665,944
–	–	15,629
–	–	24,585
–	–	1,253,857
16,063	26,898	285,651
–	–	57,141
<u>16,063</u>	<u>26,898</u>	<u>2,302,807</u>
–	24,150	1,567,470
16,063	2,748	735,337
–	2,667,924	2,667,924
50,000	45,000	226,000
–	–	(181,330)
–	–	13,694
<u>50,000</u>	<u>2,712,924</u>	<u>2,726,288</u>
66,063	2,715,672	3,461,625
<u>315,449</u>	<u>572,128</u>	<u>5,870,579</u>
<u>\$   381,512</u>	<u>\$   3,287,800</u>	<u>\$   9,332,204</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, 2014

(With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014				2013
	Budgeted Amounts		Actual Amounts	Variance With Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 7,354,520	\$ 7,354,520	\$ 7,363,667	\$ 9,147	\$ 7,130,672
Franchise taxes	571,700	571,700	594,800	23,100	584,295
Total taxes	<u>7,926,220</u>	<u>7,926,220</u>	<u>7,958,467</u>	<u>32,247</u>	<u>7,714,967</u>
Special assessments	–	–	10,798	10,798	495
Licenses and permits					
Business	74,620	74,620	79,620	5,000	80,775
Nonbusiness	564,275	564,275	500,492	(63,783)	686,059
Total licenses and permits	<u>638,895</u>	<u>638,895</u>	<u>580,112</u>	<u>(58,783)</u>	<u>766,834</u>
Intergovernmental					
Federal grants	1,500	126,284	125,971	(313)	3,246
State					
Road and bridge aid	276,000	276,000	288,204	12,204	276,721
Fire relief aid	205,000	205,000	202,136	(2,864)	206,356
Police aid	167,860	167,860	184,160	16,300	174,344
Other state aids	49,405	83,688	50,034	(33,654)	32,352
County and local					
County aid	–	–	–	–	15,000
Township fire and rescue aid	329,459	329,459	325,976	(3,483)	362,106
Liaison aid	44,820	44,820	45,860	1,040	44,060
Payment in lieu of taxes	400,000	400,000	400,000	–	400,000
Other local aids	–	76,000	3,853	(72,147)	–
Total intergovernmental	<u>1,474,044</u>	<u>1,709,111</u>	<u>1,626,194</u>	<u>(82,917)</u>	<u>1,514,185</u>
Charges for services					
Zoning fees	7,810	7,810	16,634	8,824	23,817
Plan check fees	291,420	291,420	229,070	(62,350)	322,411
Park fees	37,250	37,250	52,425	15,175	51,704
Project fees	376,000	376,000	263,929	(112,071)	363,462
Park program revenue	63,000	63,000	76,459	13,459	71,640
Tower leases	202,065	202,065	210,994	8,929	200,128
PEG access fees	34,000	34,000	33,100	(900)	33,471
Park admission/rent	23,250	23,250	21,424	(1,826)	25,389
Facility rental	71,021	71,021	141,260	70,239	70,579
Reports	2,300	2,300	2,102	(198)	2,589
Total charges for services	<u>1,108,116</u>	<u>1,108,116</u>	<u>1,047,397</u>	<u>(60,719)</u>	<u>1,165,190</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, 2014  
 (With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014			Variance With Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
Revenues (continued)					
Fines and forfeits	155,000	155,000	127,225	(27,775)	137,529
Interest (losses) on investments	120,000	120,000	230,464	110,464	(191,208)
Miscellaneous					
Other	100,000	100,000	171,833	71,833	88,697
Contributions and donations	11,000	29,505	27,761	(1,744)	38,981
Developers' agreements	70,000	70,000	90,474	20,474	155,060
Total miscellaneous	<u>181,000</u>	<u>199,505</u>	<u>290,068</u>	<u>90,563</u>	<u>282,738</u>
Total revenues	11,603,275	11,856,847	11,870,725	13,878	11,390,730
Expenditures					
Current expenditures					
General government					
Mayor and Council					
Personal services	51,324	51,324	46,347	(4,977)	47,479
Supplies	468	468	205	(263)	286
Other services and charges	5,811	5,811	5,459	(352)	7,062
Total Mayor and Council	<u>57,603</u>	<u>57,603</u>	<u>52,011</u>	<u>(5,592)</u>	<u>54,827</u>
Ordinance					
Other services and charges	6,000	6,000	8,497	2,497	8,096
Administration					
Personal services	349,419	349,419	319,176	(30,243)	353,922
Supplies	3,231	3,231	3,750	519	1,306
Other services and charges	51,402	51,402	53,334	1,932	49,191
Total administration	<u>404,052</u>	<u>404,052</u>	<u>376,260</u>	<u>(27,792)</u>	<u>404,419</u>
Boards and commissions					
Personal services	9,689	9,689	9,043	(646)	9,474
Other services and charges	650	650	346	(304)	86
Total boards and commissions	<u>10,339</u>	<u>10,339</u>	<u>9,389</u>	<u>(950)</u>	<u>9,560</u>
Election					
Personal services	25,020	25,020	11,621	(13,399)	-
Supplies	-	-	2,141	2,141	-
Other services and charges	75,000	75,000	1,398	(73,602)	-
Total election	<u>100,020</u>	<u>100,020</u>	<u>15,160</u>	<u>(84,860)</u>	<u>-</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, 2014  
 (With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014			Variance With Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
Expenditures (continued)					
Current expenditures (continued)					
General government (continued)					
Finance					
Personal services	406,485	406,485	406,089	(396)	354,288
Supplies	3,242	3,242	2,122	(1,120)	3,266
Other services and charges	17,933	17,933	18,389	456	36,300
Total finance	<u>427,660</u>	<u>427,660</u>	<u>426,600</u>	<u>(1,060)</u>	<u>393,854</u>
Auditing					
Other services and charges	25,125	25,125	25,115	(10)	24,890
Assessing					
Other services and charges	134,600	134,600	134,621	21	126,203
Legal services					
Other services and charges	340,000	340,000	384,657	44,657	336,047
Personnel					
Personal services	129,946	129,946	129,616	(330)	124,063
Supplies	281	281	246	(35)	74
Other services and charges	30,902	30,902	22,467	(8,435)	9,613
Total personnel	<u>161,129</u>	<u>161,129</u>	<u>152,329</u>	<u>(8,800)</u>	<u>133,750</u>
Communications					
Personal services	100,463	100,463	98,482	(1,981)	95,082
Supplies	1,684	1,684	450	(1,234)	413
Other services and charges	23,500	23,500	20,520	(2,980)	19,558
Total communications	<u>125,647</u>	<u>125,647</u>	<u>119,452</u>	<u>(6,195)</u>	<u>115,053</u>
Community development					
Personal services	293,605	293,605	243,058	(50,547)	295,235
Supplies	2,106	2,106	942	(1,164)	832
Other services and charges	28,140	28,140	21,663	(6,477)	59,524
Total community development	<u>323,851</u>	<u>323,851</u>	<u>265,663</u>	<u>(58,188)</u>	<u>355,591</u>
Technology					
Personal services	125,959	125,959	101,266	(24,693)	22,775
Supplies	973	973	5,949	4,976	4,602
Other services and charges	252,010	252,010	254,040	2,030	200,143
Total technology	<u>378,942</u>	<u>378,942</u>	<u>361,255</u>	<u>(17,687)</u>	<u>227,520</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, 2014  
 (With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014			Variance With Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
Expenditures (continued)					
Current expenditures (continued)					
General government (continued)					
Buildings and plant					
Personal services	27,666	27,666	50,889	23,223	71,671
Supplies	5,614	5,614	8,926	3,312	4,799
Other services and charges	387,233	387,233	422,935	35,702	411,620
Total buildings and plant	<u>420,513</u>	<u>420,513</u>	<u>482,750</u>	<u>62,237</u>	<u>488,090</u>
Total general government	2,915,481	2,915,481	2,813,759	(101,722)	2,677,900
Public safety					
Police					
Personal services	3,072,262	3,078,182	3,096,561	18,379	2,974,298
Supplies	115,810	115,810	119,121	3,311	118,323
Other services and charges	163,012	163,012	169,095	6,083	151,431
Total police	<u>3,351,084</u>	<u>3,357,004</u>	<u>3,384,777</u>	<u>27,773</u>	<u>3,244,052</u>
Fire and rescue					
Personal services	398,781	398,781	352,874	(45,907)	353,114
Supplies	86,108	86,108	74,507	(11,601)	80,287
Other services and charges	371,523	371,523	356,078	(15,445)	422,349
Total fire and rescue	<u>856,412</u>	<u>856,412</u>	<u>783,459</u>	<u>(72,953)</u>	<u>855,750</u>
Building inspections					
Personal services	551,696	551,696	519,796	(31,900)	488,879
Supplies	8,139	8,139	5,859	(2,280)	7,557
Other services and charges	3,148	3,148	8,188	5,040	4,588
Total building inspections	<u>562,983</u>	<u>562,983</u>	<u>533,843</u>	<u>(29,140)</u>	<u>501,024</u>
Emergency management					
Other services and charges	5,000	5,000	4,745	(255)	3,533
Animal control					
Other services and charges	<u>25,257</u>	<u>25,257</u>	<u>25,200</u>	<u>(57)</u>	<u>26,612</u>
Total public safety	4,800,736	4,806,656	4,732,024	(74,632)	4,630,971

(continued)

CITY OF PRIOR LAKE

General Fund  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances – Budget and Actual (continued)  
 Year Ended December 31, 2014  
 (With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014			Variance With Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
Expenditures (continued)					
Current expenditures (continued)					
Public works					
Engineering					
Personal services	323,229	323,229	310,802	(12,427)	282,725
Supplies	10,533	10,533	7,705	(2,828)	4,866
Other services and charges	37,240	37,240	19,192	(18,048)	49,699
Total engineering	<u>371,002</u>	<u>371,002</u>	<u>337,699</u>	<u>(33,303)</u>	<u>337,290</u>
Central garage					
Personal services	174,999	174,999	171,059	(3,940)	168,041
Supplies	21,334	21,334	23,565	2,231	25,420
Other services and charges	165,616	165,616	202,250	36,634	183,407
Total central garage	<u>361,949</u>	<u>361,949</u>	<u>396,874</u>	<u>34,925</u>	<u>376,868</u>
Streets					
Personal services	342,475	373,907	331,389	(42,518)	310,565
Supplies	216,418	239,216	260,549	21,333	257,594
Other services and charges	656,399	656,399	547,911	(108,488)	622,963
Total streets	<u>1,215,292</u>	<u>1,269,522</u>	<u>1,139,849</u>	<u>(129,673)</u>	<u>1,191,122</u>
Total public works	1,948,243	2,002,473	1,874,422	(128,051)	1,905,280
Culture and recreation					
Recreation					
Personal services	287,636	287,636	300,603	12,967	272,859
Supplies	51,664	51,664	45,332	(6,332)	52,257
Other services and charges	48,020	48,020	60,123	12,103	50,065
Total recreation	<u>387,320</u>	<u>387,320</u>	<u>406,058</u>	<u>18,738</u>	<u>375,181</u>
Parks					
Personal services	813,147	813,147	847,275	34,128	804,958
Supplies	179,838	186,998	181,165	(5,833)	195,121
Other services and charges	143,526	143,526	178,615	35,089	142,046
Total parks	<u>1,136,511</u>	<u>1,143,671</u>	<u>1,207,055</u>	<u>63,384</u>	<u>1,142,125</u>
Libraries					
Supplies	3,743	3,743	3,882	139	5,094
Other services and charges	71,773	71,773	67,995	(3,778)	62,377
Total libraries	<u>75,516</u>	<u>75,516</u>	<u>71,877</u>	<u>(3,639)</u>	<u>67,471</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, 2014  
 (With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014			Variance With Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
Expenditures (continued)					
Current expenditures (continued)					
Culture and recreation					
Natural resources					
Personal services	35,261	35,261	35,036	(225)	34,245
Supplies	23,158	23,158	5,845	(17,313)	3,270
Other services and charges	19,175	19,175	25,134	5,959	37,811
Total natural resources	<u>77,594</u>	<u>77,594</u>	<u>66,015</u>	<u>(11,579)</u>	<u>75,326</u>
Total culture and recreation	1,676,941	1,684,101	1,751,005	66,904	1,660,103
Total current expenditures	11,341,401	11,408,711	11,171,210	(237,501)	10,874,254
Capital outlay					
General government					
Technology	308,908	308,908	258,955	(49,953)	43,483
Buildings and plant	9,985	9,985	12,462	2,477	2,154
Public safety					
Police	–	–	1,000	1,000	338
Fire and rescue	48,018	48,018	48,504	486	46,473
Culture and recreation					
Parks	185,000	362,024	216,138	(145,886)	106,762
Economic development					
Contingency					
FEMA costs	–	215,621	92,174	(123,447)	–
Economic development	–	–	115,000	115,000	–
Total capital outlay	<u>551,911</u>	<u>944,556</u>	<u>744,233</u>	<u>(200,323)</u>	<u>199,210</u>
Total expenditures	<u>11,893,312</u>	<u>12,353,267</u>	<u>11,915,443</u>	<u>(437,824)</u>	<u>11,073,464</u>
Excess (deficiency) of revenues over expenditures	(290,037)	(496,420)	(44,718)	451,702	317,266

(continued)

CITY OF PRIOR LAKE

General Fund  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances – Budget and Actual (continued)  
 Year Ended December 31, 2014  
 (With Comparative Actual Amounts for the Year Ended December 31, 2013)

	2014			Variance With Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
Other financing sources (uses)					
Transfers in	348,540	462,606	481,762	19,156	341,700
Transfers out	<u>(1,091,943)</u>	<u>(1,091,943)</u>	<u>(1,091,655)</u>	<u>288</u>	<u>(1,200,070)</u>
Total other financing sources (uses)	<u>(743,403)</u>	<u>(629,337)</u>	<u>(609,893)</u>	<u>19,444</u>	<u>(858,370)</u>
Net change in fund balances	<u><u>\$ (1,033,440)</u></u>	<u><u>\$ (1,125,757)</u></u>	<u>(654,611)</u>	<u>\$ 471,146</u>	<u>(541,104)</u>
Fund balances					
Beginning of year			<u>6,431,258</u>		<u>6,972,362</u>
End of year			<u><u>\$ 5,776,647</u></u>		<u><u>\$ 6,431,258</u></u>

CITY OF PRIOR LAKE

Debt Service Funds  
Balance Sheet by Account  
as of December 31, 2014

	<u>Park Referendum</u>	<u>City Hall 2005</u>	<u>Fire Station #2</u>	<u>Water Revenue PW Building</u>
<b>Assets</b>				
Cash and investments	\$ -	\$ 8,573	\$ -	\$ -
Receivables				
Accounts	-	81	-	-
Special assessments				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Other (Green Acres)	-	-	-	-
Due from other governmental agencies	-	3,574	-	-
Total assets	<u>\$ -</u>	<u>\$ 12,228</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Deferred inflows of resources</b>				
Unavailable revenue from special assessments	\$ -	\$ -	\$ -	\$ -
<b>Fund balances</b>				
Restricted for debt service	-	12,228	-	-
Total deferred inflows of resources and fund balances	<u>\$ -</u>	<u>\$ 12,228</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Water Treatment Plant</u>	<u>150th Mitchell Condos</u>	<u>Tax Increment 2004</u>	<u>Breezy Point</u>	<u>Fish Point</u>
\$ -	\$ -	\$ 26,509	\$ 28,986	\$ -
-	-	113	674	-
-	-	-	398	-
-	-	-	-	30,111
-	-	-	-	692,597
-	-	-	1,106	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,622</u>	<u>\$ 31,164</u>	<u>\$ 722,708</u>
\$ -	\$ -	\$ -	\$ 398	\$ 722,708
-	-	26,622	30,766	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,622</u>	<u>\$ 31,164</u>	<u>\$ 722,708</u>

(continued)



CITY OF PRIOR LAKE

Debt Service Funds  
 Balance Sheet by Account (continued)  
 as of December 31, 2014

	<u>CSAH 82</u>	<u>Street Reconstruction 2007</u>	<u>Brooksville Hills 2008</u>	<u>Brooksville Hills II/Maple Glen 2nd</u>
<b>Assets</b>				
Cash and investments	\$ 30,535	\$ 25,961	\$ 54,638	\$ 81,924
Receivables				
Accounts	125	142	984	866
Special assessments				
Delinquent	-	-	393	-
Deferred	-	-	149,280	124,157
Other (Green Acres)	-	-	-	-
Due from other governmental agencies	927	1,130	731	906
Total assets	<u>\$ 31,587</u>	<u>\$ 27,233</u>	<u>\$ 206,026</u>	<u>\$ 207,853</u>
<b>Deferred inflows of resources</b>				
Unavailable revenue from special assessments	\$ -	\$ -	\$ 149,673	\$ 124,157
<b>Fund balances</b>				
Restricted for debt service	<u>31,587</u>	<u>27,233</u>	<u>56,353</u>	<u>83,696</u>
Total deferred inflows of resources and fund balances	<u>\$ 31,587</u>	<u>\$ 27,233</u>	<u>\$ 206,026</u>	<u>\$ 207,853</u>

<u>CR 12 &amp; 2010 Reconstruction</u>	<u>Boudin Phase I</u>	<u>Boudin Phase II</u>	<u>Welcome, CR12, Sunset</u>	<u>CSAH44, Crest, Maplewood</u>	<u>Total</u>
\$ 69,983	\$ 303,779	\$ 203,025	\$ 623,552	\$ 63,903	\$ 1,521,368
516	1,267	834	3,339	(6)	8,935
-	-	572	15,697	-	17,060
60,391	272,108	276,406	1,025,273	91,196	2,028,922
-	-	-	-	-	692,597
896	1,689	1,889	621	-	13,469
<u>\$ 131,786</u>	<u>\$ 578,843</u>	<u>\$ 482,726</u>	<u>\$ 1,668,482</u>	<u>\$ 155,093</u>	<u>\$ 4,282,351</u>
\$ 60,391	\$ 272,108	\$ 276,978	\$ 1,040,970	\$ 91,196	\$ 2,738,579
<u>71,395</u>	<u>306,735</u>	<u>205,748</u>	<u>627,512</u>	<u>63,897</u>	<u>1,543,772</u>
<u>\$ 131,786</u>	<u>\$ 578,843</u>	<u>\$ 482,726</u>	<u>\$ 1,668,482</u>	<u>\$ 155,093</u>	<u>\$ 4,282,351</u>

CITY OF PRIOR LAKE

Debt Service Funds  
 Schedule of Revenues, Expenditures,  
 and Changes in Fund Balances  
 Year Ended December 31, 2014

	Park Referendum	City Hall 2005	Fire Station #2	Water Revenue PW Building
<b>Revenues</b>				
Taxes	\$ -	\$ 574,679	\$ -	\$ -
Special assessments	-	-	-	-
Interest on investments	-	3,028	11,461	-
Total revenues	<u>-</u>	<u>577,707</u>	<u>11,461</u>	<u>-</u>
<b>Expenditures</b>				
Debt service				
Principal	645,000	375,000	75,000	170,000
Interest and other	141,288	199,758	240,786	8,075
Total expenditures	<u>786,288</u>	<u>574,758</u>	<u>315,786</u>	<u>178,075</u>
Excess (deficiency) of revenues over expenditures	(786,288)	2,949	(304,325)	(178,075)
<b>Other financing sources (uses)</b>				
Debt issued	-	-	-	-
Refunding debt issued	-	-	-	-
Premium on debt issued	-	-	-	-
Paid to refunded bond escrow agent	-	-	(3,215,000)	-
Transfers in	786,288	-	220,767	178,075
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>786,288</u>	<u>-</u>	<u>(2,994,233)</u>	<u>178,075</u>
Net change in fund balances	-	2,949	(3,298,558)	-
<b>Fund balances</b>				
Beginning of year	<u>-</u>	<u>9,279</u>	<u>3,298,558</u>	<u>-</u>
End of year	<u>\$ -</u>	<u>\$ 12,228</u>	<u>\$ -</u>	<u>\$ -</u>

Water Treatment Plant	150th Mitchell Condos	Tax Increment 2004	Breezy Point	Fish Point
\$ -	\$ -	\$ -	\$ 156,809	\$ -
-	10,558	-	52,043	45,913
-	2,792	1,115	4,128	2,968
-	13,350	1,115	212,980	48,881
200,000	-	25,000	245,000	-
314,689	-	6,418	4,410	-
514,689	-	31,418	249,410	-
(514,689)	13,350	(30,303)	(36,430)	48,881
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
514,689	-	31,330	-	-
-	(114,066)	-	-	(136,628)
514,689	(114,066)	31,330	-	(136,628)
-	(100,716)	1,027	(36,430)	(87,747)
-	100,716	25,595	67,196	87,747
\$ -	\$ -	\$ 26,622	\$ 30,766	\$ -

(continued)

CITY OF PRIOR LAKE

Debt Service Funds  
 Schedule of Revenues, Expenditures,  
 and Changes in Fund Balances (continued)  
 Year Ended December 31, 2014

	CSAH 82	Street Reconstruction 2007	Brooksville Hills 2008	Brooksville Hills II/Maple Glen 2nd
<b>Revenues</b>				
Taxes	\$ 149,055	\$ 181,795	\$ 91,328	\$ 113,730
Special assessments	-	-	43,927	50,037
Interest on investments	493	1,965	9,955	6,758
Total revenues	<u>149,548</u>	<u>183,760</u>	<u>145,210</u>	<u>170,525</u>
<b>Expenditures</b>				
Debt service				
Principal	130,000	150,000	130,000	175,000
Interest and other	18,840	25,575	33,865	30,625
Total expenditures	<u>148,840</u>	<u>175,575</u>	<u>163,865</u>	<u>205,625</u>
Excess (deficiency) of revenues over expenditures	708	8,185	(18,655)	(35,100)
<b>Other financing sources (uses)</b>				
Debt issued	-	-	-	-
Refunding debt issued	-	-	495,000	-
Premium on debt issued	-	-	15,657	-
Paid to refunded bond escrow agent	-	-	(540,000)	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(29,343)</u>	<u>-</u>
Net change in fund balances	708	8,185	(47,998)	(35,100)
<b>Fund balances</b>				
Beginning of year	<u>30,879</u>	<u>19,048</u>	<u>104,351</u>	<u>118,796</u>
End of year	<u>\$ 31,587</u>	<u>\$ 27,233</u>	<u>\$ 56,353</u>	<u>\$ 83,696</u>

<u>CR 12 &amp; 2010 Reconstruction</u>	<u>Boudin Phase I</u>	<u>Boudin Phase II</u>	<u>Welcome, CR12, Sunset</u>	<u>CSAH44, Crest, Maplewood</u>	<u>Total</u>
\$ 109,422	\$ 167,148	\$ 200,750	\$ -	\$ -	\$ 1,744,716
14,308	72,349	49,382	222,813	29,203	590,533
4,796	15,351	10,943	30,787	1,616	108,156
<u>128,526</u>	<u>254,848</u>	<u>261,075</u>	<u>253,600</u>	<u>30,819</u>	<u>2,443,405</u>
120,000	205,000	215,000	325,000	-	3,185,000
23,478	35,223	43,056	69,980	-	1,196,066
<u>143,478</u>	<u>240,223</u>	<u>258,056</u>	<u>394,980</u>	<u>-</u>	<u>4,381,066</u>
(14,952)	14,625	3,019	(141,380)	30,819	(1,937,661)
-	-	-	-	33,078	33,078
-	-	-	-	-	495,000
-	-	-	-	-	15,657
-	-	-	-	-	(3,755,000)
-	-	-	136,628	-	1,867,777
-	-	-	-	-	(250,694)
<u>-</u>	<u>-</u>	<u>-</u>	<u>136,628</u>	<u>33,078</u>	<u>(1,594,182)</u>
(14,952)	14,625	3,019	(4,752)	63,897	(3,531,843)
<u>86,347</u>	<u>292,110</u>	<u>202,729</u>	<u>632,264</u>	<u>-</u>	<u>5,075,615</u>
<u>\$ 71,395</u>	<u>\$ 306,735</u>	<u>\$ 205,748</u>	<u>\$ 627,512</u>	<u>\$ 63,897</u>	<u>\$ 1,543,772</u>

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OTHER INFORMATION SECTION



CITY OF PRIOR LAKE

Summary Financial Report  
 Revenues and Expenditures for General Operations  
 Governmental Funds  
 Years Ended December 31, 2014 and 2013

	Total		Percent Increase (Decrease)
	2014	2013	
<b>Revenues</b>			
Taxes	\$ 9,924,277	\$ 9,866,751	0.6%
Franchise taxes	594,800	584,295	1.8%
Special assessments	616,960	1,141,780	(46.0%)
Licenses and permits	580,112	766,834	(24.3%)
Intergovernmental	2,038,495	4,017,546	(49.3%)
Charges for services	2,771,929	2,656,259	4.4%
Fines and forfeits	127,225	137,529	(7.5%)
Interest (losses) on investments	730,981	(423,041)	(272.8%)
Miscellaneous	350,339	319,770	9.6%
	<u>\$ 17,735,118</u>	<u>\$ 19,067,723</u>	(7.0%)
Total revenues			
Per capita	\$ 732	\$ 787	(7.0%)
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 2,813,759	\$ 2,677,900	5.1%
Public safety	4,732,024	4,630,971	2.2%
Public works	1,874,422	1,905,280	(1.6%)
Culture and recreation	1,768,519	1,677,636	5.4%
Economic development	115,437	194,575	(40.7%)
Capital outlay	6,338,290	8,686,687	(27.0%)
<b>Debt service</b>			
Principal	3,185,000	3,905,000	(18.4%)
Interest and other charges	1,256,059	1,310,700	(4.2%)
	<u>\$ 22,083,510</u>	<u>\$ 24,988,749</u>	(11.6%)
Total disbursements			
Per capita	\$ 912	\$ 1,032	(11.6%)
	<u>\$ 33,640,000</u>	<u>\$ 37,915,000</u>	(11.3%)
Total long-term indebtedness			
Per capita	\$ 1,389	\$ 1,565	(11.3%)
	<u>\$ 5,776,647</u>	<u>\$ 6,431,258</u>	(10.2%)
General Fund balance – December 31			
Per capita	\$ 238	\$ 266	(10.2%)

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. 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, 2014

	Interest Rate	Issue Date	Final Maturity Date
Bonded indebtedness			
G.O. special assessment bonds			
G.O. Street Improvement Bonds of 2008B	2.40–3.65 %	05/15/2008	12/15/2018
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 Refunding Bonds of 2011A	1.80	08/31/2011	12/15/2014
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
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. Fire Hall Bonds of 2006A	4.00–4.50	11/15/2006	12/15/2031
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. Public Works Building Refunding Bonds of 2005	3.75–4.75	09/01/2005	12/01/2014
G.O. Water Treatment Plant Revenue Bonds of 2007A	4.00–4.20	05/15/2007	12/15/2032
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 2015	
				Principal	Interest
\$ 1,300,000	\$ 670,000	\$ (670,000)	\$ –	\$ –	\$ –
1,700,000	1,050,000	(175,000)	875,000	175,000	26,950
1,235,000	875,000	(120,000)	755,000	120,000	21,143
2,130,000	1,730,000	(205,000)	1,525,000	210,000	31,445
820,000	245,000	(245,000)	–	–	–
2,280,000	2,075,000	(215,000)	1,860,000	220,000	38,668
3,240,000	3,240,000	(325,000)	2,915,000	325,000	63,280
2,170,000	–	2,170,000	2,170,000	185,000	57,250
495,000	–	495,000	495,000	120,000	12,374
<u>15,370,000</u>	<u>9,885,000</u>	<u>710,000</u>	<u>10,595,000</u>	<u>1,355,000</u>	<u>251,110</u>
290,000	270,000	(25,000)	245,000	20,000	5,880
6,260,000	2,890,000	(645,000)	2,245,000	710,000	110,475
3,700,000	3,290,000	(3,290,000)	–	–	–
1,400,000	635,000	(150,000)	485,000	155,000	19,400
3,500,000	3,500,000	–	3,500,000	120,000	95,018
<u>9,825,000</u>	<u>9,010,000</u>	<u>(375,000)</u>	<u>8,635,000</u>	<u>395,000</u>	<u>192,058</u>
<u>24,685,000</u>	<u>19,325,000</u>	<u>(4,460,000)</u>	<u>14,865,000</u>	<u>1,380,000</u>	<u>416,951</u>
1,310,000	170,000	(170,000)	–	–	–
8,500,000	7,710,000	(200,000)	7,510,000	220,000	306,514
<u>9,810,000</u>	<u>7,880,000</u>	<u>(370,000)</u>	<u>7,510,000</u>	<u>220,000</u>	<u>306,514</u>
<u>1,225,000</u>	<u>555,000</u>	<u>(130,000)</u>	<u>425,000</u>	<u>135,000</u>	<u>13,804</u>
<u>\$ 51,380,000</u>	<u>\$ 37,915,000</u>	<u>\$ (4,275,000)</u>	<u>\$ 33,640,000</u>	<u>\$ 3,110,000</u>	<u>\$ 994,259</u>

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CITY OF PRIOR LAKE

Bond Schedules  
December 31, 2014

	Issue Date	Interest Rate	Final Maturity Date	Principal
<b>General obligation special assessment bonds</b>				
\$1,700,000 General Obligation				
Improvement Bonds, Series 2009A	05/15/2009	2.40 %	12/15/2015	\$ 175,000
		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				875,000
\$1,235,000 General Obligation				
Improvement Bonds, Series 2010A	05/26/2010	2.20 %	12/15/2015	120,000
		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				755,000
\$2,130,000 General Obligation				
Improvement Bonds, Series 2011A	08/31/2011	1.80 %	12/15/2015	210,000
		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				1,525,000

(continued)

CITY OF PRIOR LAKE

Bond Schedules (continued)  
December 31, 2014

	Issue Date	Interest Rate	Final Maturity Date	Principal
<b>General obligation special assessment bonds (continued)</b>				
\$2,280,000 General Obligation				
Improvement Bonds, Series 2011B	12/14/2011	1.80 %	12/15/2015	220,000
		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				1,860,000
\$3,240,000 General Obligation				
Improvement Bonds, Series 2013A	08/15/2013	2.00 %	12/15/2015	325,000
		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				2,915,000
\$2,170,000 General Obligation				
Improvement Bonds, Series 2014A	09/25/2014	2.00 %	12/15/2015	185,000
		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				2,170,000

(continued)

CITY OF PRIOR LAKE

Bond Schedules (continued)  
December 31, 2014

	Issue Date	Interest Rate	Final Maturity Date	Principal
<b>General obligation special assessment bonds (continued)</b>				
\$495,000 General Obligation Improvement Refunding Bonds, Series 2014A	09/25/2014	2.00 %	12/15/2015	120,000
		2.00	12/15/2016	125,000
		2.00	12/15/2017	125,000
		2.00	12/15/2018	125,000
Total				<u>495,000</u>
Total general obligation special assessment bonds				<u><u>\$ 10,595,000</u></u>
<b>General obligation tax increment bonds</b>				
\$290,000 Tax Increment Refunding Bonds, Series 2011A	08/31/2011	1.80 %	12/15/2015	\$ 20,000
		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
Total general obligation tax increment bonds				<u><u>\$ 245,000</u></u>
<b>General obligation bonds</b>				
\$6,260,000 General Obligation Park Refunding Bonds of 2005	09/01/2005	4.750 %	12/01/2015	\$ 710,000
		5.000	12/01/2016	780,000
		5.000	12/01/2017	755,000
Total				<u>2,245,000</u>
\$1,400,000 General Obligation Street Reconstruction Bonds of 2007B	05/15/2007	4.00 %	12/15/2015	155,000
		4.00	12/15/2016	160,000
		4.00	12/15/2017	170,000
Total				<u>485,000</u>

(continued)

CITY OF PRIOR LAKE

Bond Schedules (continued)  
December 31, 2014

	Issue Date	Interest Rate	Final Maturity Date	Principal
<b>General obligation bonds (continued)</b>				
\$3,500,000 General Obligation Improvement Bonds, Series 2011B	12/14/2011	2.00 %	12/15/2015	120,000
		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>3,500,000</u>	
\$9,825,000 General Obligation Capital Improvement Refunding Bonds of 2012A	03/13/2012	2.00 %	12/15/2015	395,000
		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>8,635,000</u>	
Total general obligation bonds			<u><u>\$ 14,865,000</u></u>	

(continued)



CITY OF PRIOR LAKE

Bond Schedules (continued)  
December 31, 2014

	Issue Date	Interest Rate	Final Maturity Date	Principal
<b>General obligation bonds (continued)</b>				
<b>General obligation revenue bonds</b>				
\$8,500,000 General Obligation Water Treatment Plant Revenue Bonds of 2007A				
	05/15/2007	4.00 %	12/15/2015	\$ 220,000
		4.00	12/15/2016	240,000
		4.00	12/15/2017	260,000
		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
		4.00	12/15/2023	400,000
		4.00	12/15/2024	425,000
		4.00	12/15/2025	450,000
		4.10	12/15/2026	475,000
		4.13	12/15/2027	500,000
		4.13	12/15/2028	525,000
		4.13	12/15/2029	550,000
		4.20	12/15/2030	580,000
		4.20	12/15/2031	610,000
		4.20	12/15/2032	645,000
				<u>\$ 7,510,000</u>
Total general obligation revenue bonds				
<b>General obligation capital improvement plan bonds</b>				
\$1,225,000 General Obligation Capital Improvement Plan Bonds				
	08/01/2007	3.80 %	02/01/2015	\$ 135,000
		3.85	02/01/2016	140,000
		3.90	02/01/2017	150,000
				<u>\$ 425,000</u>
Total general obligation capital improvement plan bonds				

CITY OF PRIOR LAKE

Debt Service Requirements  
December 31, 2014

Year	General Obligation Bonds		General Obligation Special Assessment Bonds		General Obligation Tax Increment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,380,000	\$ 416,950	\$ 1,355,000	\$ 251,110	\$ 20,000	\$ 5,880
2016	1,485,000	366,725	1,380,000	209,565	20,000	5,520
2017	1,495,000	310,425	1,380,000	180,020	20,000	5,160
2018	610,000	254,475	1,415,000	150,163	25,000	4,800
2019	635,000	242,275	1,300,000	117,988	25,000	4,300
2020	675,000	229,576	1,140,000	87,601	25,000	3,763
2021	720,000	215,996	1,025,000	62,026	25,000	3,175
2022	745,000	201,244	800,000	38,936	25,000	2,550
2023	785,000	185,713	555,000	20,480	30,000	1,800
2024	830,000	169,041	245,000	6,129	30,000	900
2025	875,000	150,120	-	-	-	-
2026	925,000	128,960	-	-	-	-
2027	975,000	105,680	-	-	-	-
2028	1,030,000	80,030	-	-	-	-
2029	1,085,000	51,630	-	-	-	-
2030	300,000	20,910	-	-	-	-
2031	315,000	10,710	-	-	-	-
2032	-	-	-	-	-	-
Total	<u>\$ 14,865,000</u>	<u>\$ 3,140,460</u>	<u>\$ 10,595,000</u>	<u>\$ 1,124,018</u>	<u>\$ 245,000</u>	<u>\$ 37,848</u>

General Obligation Revenue Bonds		General Obligation Plan Bonds	
Principal	Interest	Principal	Interest
\$ 220,000	\$ 306,514	\$ 135,000	\$ 13,805
240,000	297,714	140,000	8,545
260,000	288,114	150,000	2,925
280,000	277,714	-	-
300,000	266,513	-	-
325,000	254,514	-	-
350,000	241,514	-	-
375,000	227,514	-	-
400,000	212,514	-	-
425,000	196,513	-	-
450,000	179,514	-	-
475,000	161,514	-	-
500,000	142,039	-	-
525,000	121,414	-	-
550,000	99,759	-	-
580,000	77,070	-	-
610,000	52,710	-	-
645,000	27,087	-	-
<u>\$ 7,510,000</u>	<u>\$ 3,430,245</u>	<u>\$ 425,000</u>	<u>\$ 25,275</u>

CITY OF PRIOR LAKE

Tax Levies and Collections,  
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
2005	\$ 7,313,669	\$ 6,903,982	94.40 *	\$ 83,978	\$ 6,987,960	95.55 %
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

\* 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
2005	\$ 408,574	\$ 380,040	93.02	\$ 5,927	\$ 385,967	94.47 %
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

\*\* 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>2012</u>	<u>2013</u>	<u>2014</u>
Taxable market value	\$ 2,504,043,900	\$ 2,372,776,200	\$ 2,590,697,300
Tax levy	\$ 9,414,124	\$ 9,414,124	\$ 9,448,918
Tax capacity, net of fiscal disparities, and tax increment	\$ 27,782,497	\$ 26,188,839	\$ 26,941,679
Tax capacity rate	29.739%	31.887%	30.736%
Market value rate	0.044%	0.040%	0.040%

CITY OF PRIOR LAKE

Key Financial Indicators  
Prior Three Years

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Current population	23,385	24,223	24,223
Tax capacity, net of fiscal disparities, and tax increment	\$ 27,782,497	\$ 26,188,839	\$ 26,941,679
Percent of current property taxes collected	99.51%	98.87%	99.07%
City revenues per capita (governmental funds)	\$ 836	\$ 788	\$ 731
City expenditures per capita (governmental funds)	\$ 1,006	\$ 1,032	\$ 911
Ratio of bonded debt to tax capacity	143.31%	148.55%	128.05%
Bond rating	Aa2	Aa2	Aa2

OTHER REQUIRED REPORTS

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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

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, 2014, 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 15, 2015.

**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 15, 2015

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, 2014, 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 15, 2015.

**MINNESOTA LEGAL COMPLIANCE**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*. 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.

**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 15, 2015

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