

CITY OF CIRCLE PINES
ANOKA COUNTY, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
December 31, 2015

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CITY OF CIRCLE PINES
ANOKA COUNTY, MINNESOTA

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INTRODUCTORY SECTION

CITY OF CIRCLE PINES
ANOKA COUNTY, MINNESOTA

City Council and Other Officials
Year Ended December 31, 2015

CITY COUNCIL

David Bartholomay	Mayor
Dave Kelso	Councilmember
Deb O'Brien	Councilmember
Matt Percy	Councilmember
Richard Runbeck	Councilmember

CITY ADMINISTRATION

James W. Keinath	City Administrator/Clerk
Ronda Dalbec	Finance Director

CENTENNIAL UTILITIES COMMISSION

Ed Erchul	Chairperson
David Bartholomay	Member
Andy Dahl	Member
Jan Kreminski	Member
Keath Young	Member
James W. Keinath	Ex-Officio

FINANCIAL SECTION

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PRINCIPALS

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

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management
City of Circle Pines, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Circle Pines, Minnesota (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

OPINIONS

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

EMPHASIS OF MATTER

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

OTHER MATTERS

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and the supplemental information, 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 supplemental information is the responsibility of management and was derived from and relates 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
July 7, 2016

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CITY OF CIRCLE PINES

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

As management of the City of Circle Pines, Minnesota (the City), we have provided readers of the City's financial statements with this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2015.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$26,742,905 (*net position*). Of this amount, \$13,074,455 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,475,407 in 2015, excluding the effect of a change in accounting principle discussed below.
- The City recorded a change in accounting principle related to the implementation of new accounting standards for reporting employee participation in defined benefit pension plans. The change resulted in reductions to the beginning net position of the governmental activities (\$296,241) and business-type activities (\$601,459) on the City's government-wide financial statements. Please note the amounts included in the Management's Discussion and Analysis for 2014 have not been restated.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,927,805. Of this total amount, \$6,921 is nonspendable and \$2,189,839 is restricted, leaving an unrestricted balance of \$7,731,045.
- At the end of the current fiscal year, the General Fund has a fund balance of \$3,023,370, an increase of \$60,423 over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These financial statements include not only the City itself (known as the primary government), but also the Centennial Utilities Commission (the Commission) and the Circle Pines Housing and Redevelopment Authority (HRA). The Commission and HRA are legally separate entities which function, in essence, as part of the City. Therefore, the Commission and HRA have been included (blended) as an integral part of the City's financial statements.

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 private sector businesses.

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

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

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 include general government, public safety, public works, and parks and recreation. The business-type activities of the City include enterprises for gas, water, sewer, storm water, and solid waste utilities.

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. The funds of the City are 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 the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The fund financial statements present information for each major governmental fund in separate columns. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The City adopts an annual appropriated budget for the General Fund. Budget-to-actual comparisons are provided in this financial report for this fund.

Proprietary Funds – All of the City's proprietary funds are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City presents all enterprise funds as major funds in separate columns.

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.

Other Information – In addition to the basic financial statements and accompanying notes, the financial section also presents required supplementary information, and the combining fund statements (presented as supplemental information) referred to earlier in connection with nonmajor governmental funds, which are presented immediately following the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

An analysis of the City’s financial position begins with a review of the Statement of Net Position and the Statement of Activities. These two statements report the City’s net position and changes in net position. It should be noted that the financial position can also be affected by nonfinancial factors, including economic conditions, population growth, and new regulations.

As noted earlier, net position may serve over time as a useful indicator of the City’s financial position. As presented in the following condensed version of the Statement of Net Position, the City’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$26,742,905 at December 31, 2015.

A portion of the City’s net position, \$11,542,588, or 43 percent, reflects its investment in capital assets (e.g., land, construction in progress, buildings and structures, infrastructure and improvements, distribution and collection systems, machinery and equipment, office furniture and equipment, and vehicles) net of accumulated depreciation. 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 is a summary of the City’s net position:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 11,912,351	\$ 11,898,207	\$ 7,477,705	\$ 7,097,492	\$ 19,390,056	\$ 18,995,699
Capital assets	13,216,301	11,628,397	11,203,170	11,580,417	24,419,471	23,208,814
Total assets	\$ 25,128,652	\$ 23,526,604	\$ 18,680,875	\$ 18,677,909	\$ 43,809,527	\$ 42,204,513
Deferred outflows of resources						
Pension plan deferments – PERA	\$ 41,800	\$ –	\$ 84,868	\$ –	\$ 126,668	\$ –
Liabilities						
Current and other liabilities	\$ 293,943	\$ 431,430	\$ 333,266	\$ 978,734	\$ 627,209	\$ 1,410,164
Long-term liabilities	10,229,350	9,314,020	6,216,237	5,315,131	16,445,587	14,629,151
Total liabilities	\$ 10,523,293	\$ 9,745,450	\$ 6,549,503	\$ 6,293,865	\$ 17,072,796	\$ 16,039,315
Deferred inflows of resources						
Pension plan deferments – PERA	\$ 39,763	\$ –	\$ 80,731	\$ –	\$ 120,494	\$ –
Net position						
Net investment in capital assets	\$ 5,105,798	\$ 4,048,014	\$ 6,436,790	\$ 6,523,876	\$ 11,542,588	\$ 10,571,890
Restricted	2,078,112	1,959,797	47,750	47,750	2,125,862	2,007,547
Unrestricted	7,423,486	7,773,343	5,650,969	5,812,418	13,074,455	13,585,761
Total net position	\$ 14,607,396	\$ 13,781,154	\$ 12,135,509	\$ 12,384,044	\$ 26,742,905	\$ 26,165,198

Restricted net position of \$2,125,862 comprises 8 percent of net position at the close of the fiscal year ending December 31, 2015. This net position is subject to external restrictions on how it may be used.

The balance of unrestricted net position, \$13,074,455, or approximately 49 percent, may be used to meet the City's ongoing obligations to citizens and creditors. Certain balances within unrestricted net position may have internally imposed limitations, which may further limit the purpose for which such net position may be used.

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.

As previously mentioned, the City recorded a change in accounting principle related to the implementation of new accounting standards for reporting employee participation in defined benefit pension plans. Amounts reported in the table on the previous page for 2014 have not been restated. This change increased the balances reported on the previous page for deferred outflows of resources, long-term liabilities outstanding, and deferred inflows of resources.

The following table provides a condensed version of the Statement of Activities for the year ended December 31, 2015 with comparative totals for the year ended December 31, 2014:

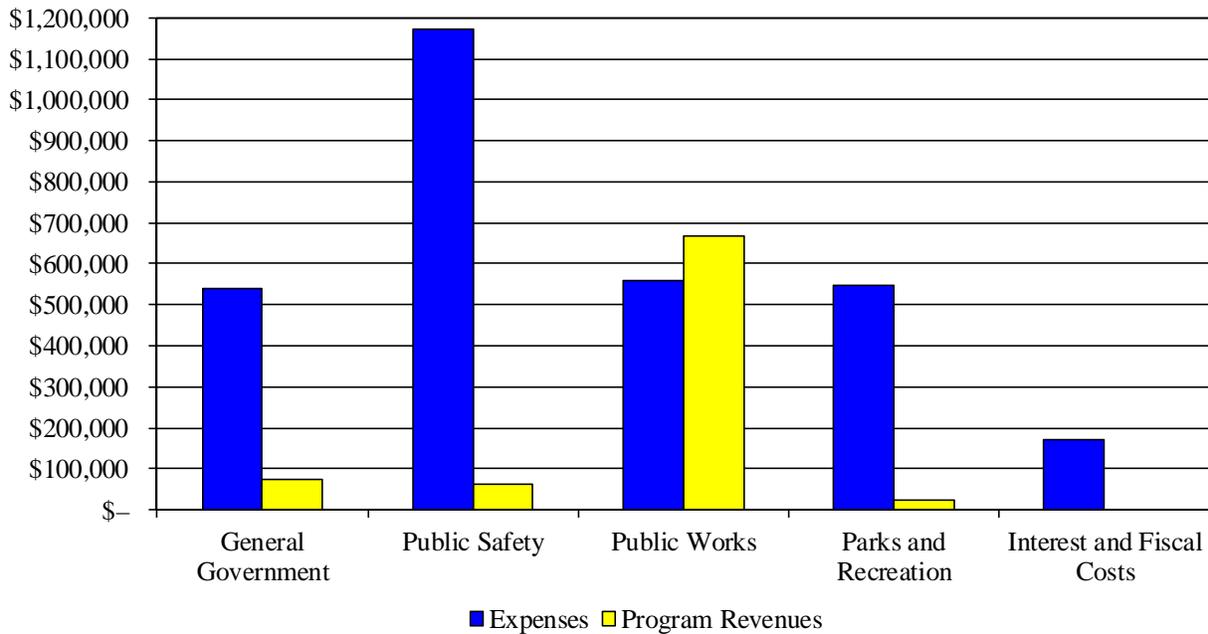
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	\$ 123,333	\$ 111,133	\$ 4,623,358	\$ 5,984,019	\$ 4,746,691	\$ 6,095,152
Operating grants and contributions	49,525	48,360	34,108	54,754	83,633	103,114
Capital grants and contributions	654,717	443,940	-	-	654,717	443,940
General revenues						
Property and franchise taxes	2,575,153	2,683,055	-	-	2,575,153	2,683,055
General grants and contributions	447,650	460,116	-	-	447,650	460,116
Other general revenues	155,979	341,740	-	-	155,979	341,740
Investment earnings	104,874	132,312	82,128	99,293	187,002	231,605
Total revenues	<u>4,111,231</u>	<u>4,220,656</u>	<u>4,739,594</u>	<u>6,138,066</u>	<u>8,850,825</u>	<u>10,358,722</u>
Expenses						
General government	538,716	531,843	-	-	538,716	531,843
Public safety	1,172,029	1,164,399	-	-	1,172,029	1,164,399
Public works	559,892	517,291	-	-	559,892	517,291
Parks and recreation	545,601	565,221	-	-	545,601	565,221
Interest and fiscal costs	172,510	144,825	-	-	172,510	144,825
Gas	-	-	2,734,185	3,922,885	2,734,185	3,922,885
Water	-	-	487,187	457,918	487,187	457,918
Sewer	-	-	656,101	645,477	656,101	645,477
Storm water	-	-	128,476	123,063	128,476	123,063
Solid waste	-	-	380,721	361,325	380,721	361,325
Total expenses	<u>2,988,748</u>	<u>2,923,579</u>	<u>4,386,670</u>	<u>5,510,668</u>	<u>7,375,418</u>	<u>8,434,247</u>
Change in net position	1,122,483	1,297,077	352,924	627,398	1,475,407	1,924,475
Net position – beginning, as previously reported	13,781,154	12,484,077	12,384,044	11,756,646	26,165,198	24,240,723
Change in accounting principle	(296,241)	-	(601,459)	-	(897,700)	-
Net position – beginning, restated	<u>13,484,913</u>	<u>12,484,077</u>	<u>11,782,585</u>	<u>11,756,646</u>	<u>25,267,498</u>	<u>24,240,723</u>
Net position – ending	<u>\$ 14,607,396</u>	<u>\$ 13,781,154</u>	<u>\$ 12,135,509</u>	<u>\$ 12,384,044</u>	<u>\$ 26,742,905</u>	<u>\$ 26,165,198</u>

Governmental Activities – Current year operating results of governmental activities increased net position by \$1,122,483, due in part to special assessment revenue recognized on capitalized street improvement projects. Expenses increased by \$65,169, or 2.2 percent, over the prior year.

Business-Type Activities – Current year operating results of business-type activities increased net position by \$352,924, due to positive results of the utility operations of the City. Program revenues exceeded program expenses for each of the City's business-type activities.

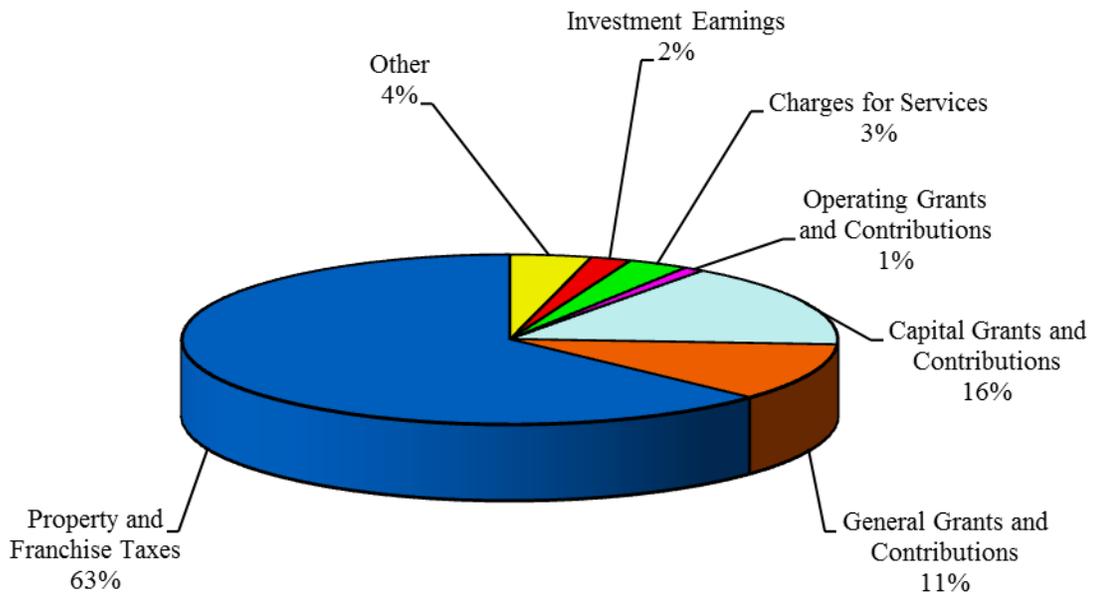
The following graphs illustrate the City's governmental activities:

Expenses and Program Revenues – Governmental Activities



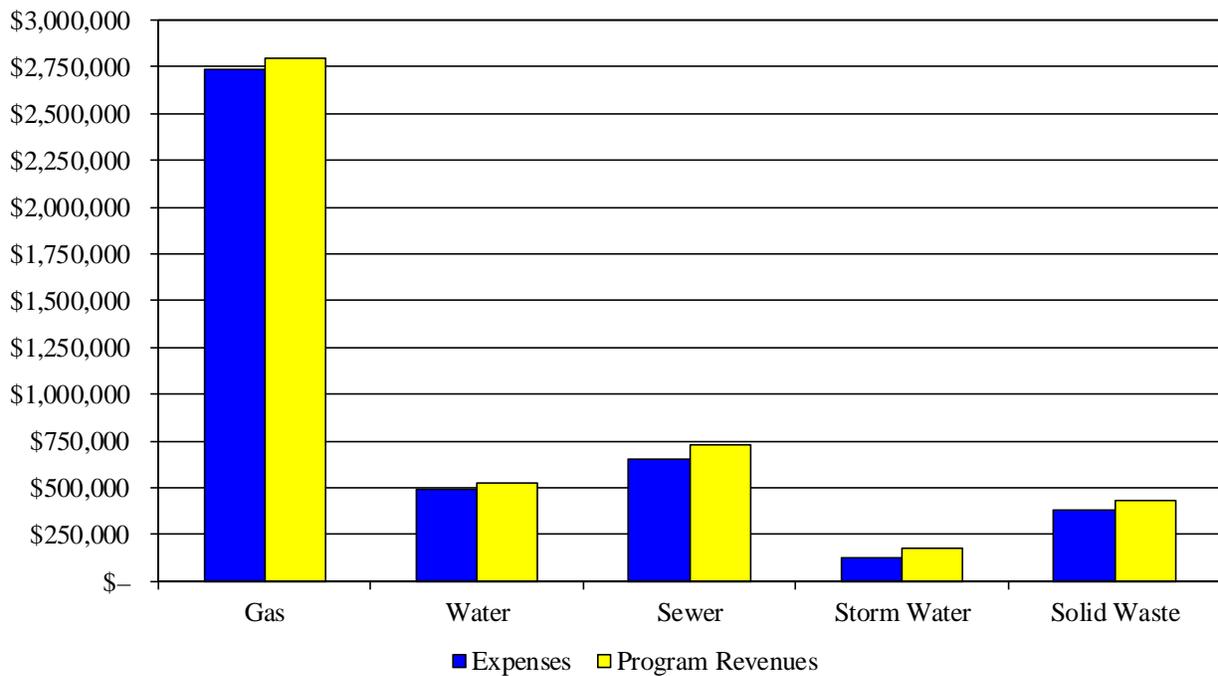
As is common with many cities, the City's governmental activities are primarily funded with property taxes. Property and franchise taxes accounted for 63 percent of governmental activities revenues. Capital grants and contributions made up 16 percent of governmental activities revenue sources, followed by general grants and contributions at 11 percent. Other general and program revenues finance governmental activities to a lesser extent.

Revenue by Source – Governmental Activities



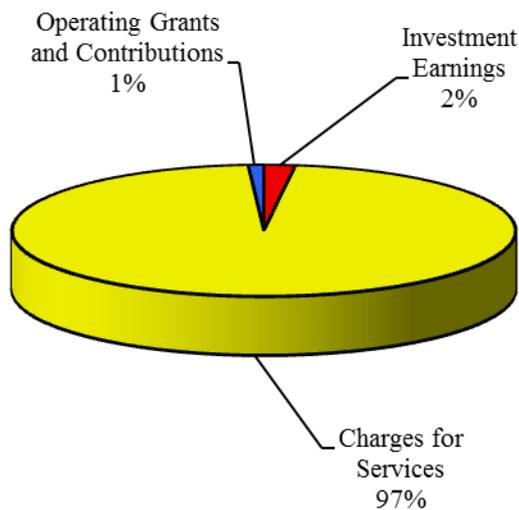
The following graphs illustrate the City’s business-type activities:

Expenses and Program Revenues – Business-Type Activities



Unlike governmental activities, these activities are primarily funded through program revenues like user charges. Overall, the business-type activities had positive operating results, but the City will continually need to look at utility rate adjustments to cover operational costs, cash flow, and infrastructure replacement.

Revenues by Source – Business-Type Activities



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 following is a summary of the City's governmental funds ending fund balances in comparison with the prior year:

	Fund Balances		Increase (Decrease)
	2015	2014	
Major funds			
General	\$ 3,023,370	\$ 2,962,947	\$ 60,423
Special revenue			
Tax Increment District No. 1-1 South	–	18,562	(18,562)
Tax Increment District No. 1-4 North	(334,037)	(479,451)	145,414
Debt service			
Capital Improvement Plan Bonds	238,022	228,587	9,435
Tax Increment Bonds	–	–	–
Capital project			
Permanent Improvement Revolving	1,206,617	1,858,748	(652,131)
Street Project	3,018,672	3,523,021	(504,349)
Nonmajor funds	2,775,161	1,719,844	1,055,317
Total fund balances	<u>\$ 9,927,805</u>	<u>\$ 9,832,258</u>	<u>\$ 95,547</u>

General Fund – The General Fund operating results can be summarized as follows:

	Original and Final Budget	Actual	Over (Under) Final Budget	Prior Year Actual
Revenue	\$ 2,519,102	\$ 2,581,239	\$ 62,137	\$ 2,506,415
Expenditures	2,453,675	2,255,389	(198,286)	2,250,808
Excess (deficiency) of revenue over expenditures	65,427	325,850	260,423	255,607
Transfers out	(65,427)	(265,427)	(200,000)	–
Net change in fund balances	<u>\$ –</u>	60,423	<u>\$ 60,423</u>	255,607
Fund balances				
Beginning of year		2,962,947		2,707,340
End of year		<u>\$ 3,023,370</u>		<u>\$ 2,962,947</u>

The General Fund has continued to improve its financial condition, which the City believes is important given the significant street improvement needs going forward. This will help protect the City from future funding shortfalls, as well as provide resources for unexpected but necessary expenditures.

The City believes the above table reflects favorable budget variances as a result of a good year of operations and strong budget controls.

Significant Activities of Other Governmental Funds – The changes in the major special revenue tax increment funds represent the difference in property tax increment revenue received in relation to current debt transfers made. There was minimal change in the major debt service funds’ ending fund balance in the current year. The decrease in the Street Project Fund was primarily for street infrastructure improvements exceeding current year revenues and other sources. The Permanent Improvement Revolving Fund made a transfer to the Tax Increment District No. 1-1 South Special Revenue Fund to eliminate the advance between the funds with the completion of this tax increment district.

Proprietary Funds – The City’s proprietary funds had a combined net position balance of \$12,135,509 at December 31, 2015. The changes in net position balances of these funds are listed below:

	Net Position		Increase (Decrease)
	2015	2014	
Major funds			
Enterprise			
Circle Pines Gas Utility	\$ 1,957,945	\$ 2,222,569	\$ (264,624)
Lino Lakes Gas Utility	716,765	808,648	(91,883)
Blaine Gas Utility	(330,319)	(302,403)	(27,916)
Water Utility	4,694,239	4,700,112	(5,873)
Sewer Utility	2,276,206	2,252,661	23,545
Storm Water Utility	1,993,755	1,938,292	55,463
Solid Waste Utility	826,918	764,165	62,753
Total net position	<u>\$ 12,135,509</u>	<u>\$ 12,384,044</u>	<u>\$ (248,535)</u>

The proprietary funds as a whole experienced an increase in total net position of \$352,924 from current year operations, while the change in accounting principle accounted for an overall decrease in the total proprietary funds net position of \$601,459. The Blaine Gas Utility operation continues to struggle and has not yet accomplished the level of profit needed.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets – The City’s investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of December 31, 2015 is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 529,453	\$ 529,453	\$ 4,153	\$ 4,153	\$ 533,606	\$ 533,606
Construction in progress	136,735	1,077,157	–	182,942	136,735	1,260,099
Buildings and structures	4,596,896	4,596,896	1,036,603	1,036,603	5,633,499	5,633,499
Furniture and equipment	1,245,062	1,219,838	2,661,117	2,318,738	3,906,179	3,538,576
Improvements other than buildings	12,730,538	9,851,419	16,568,581	16,529,498	29,299,119	26,380,917
Utility rights	–	–	393,682	393,682	393,682	393,682
Total capital assets	19,238,684	17,274,763	20,664,136	20,465,616	39,902,820	37,740,379
Accumulated depreciation	(6,022,383)	(5,646,366)	(9,460,966)	(8,885,199)	(15,483,349)	(14,531,565)
Total capital assets, net of depreciation	<u>\$ 13,216,301</u>	<u>\$ 11,628,397</u>	<u>\$ 11,203,170</u>	<u>\$ 11,580,417</u>	<u>\$ 24,419,471</u>	<u>\$ 23,208,814</u>
Depreciation expense	\$ 522,351	\$ 480,570	\$ 609,215	\$ 568,054	\$ 1,131,566	\$ 1,048,624

The City has analyzed its infrastructure and has anticipated repairs or replacement in the near future to streets, water, sewer, and storm water systems. The existing streets, in certain parts of the community, are reaching the end of their useful life. Over the next 10 years, the City anticipates continued construction projects for the reconstruction of that infrastructure.

Increases in the current year included new projects and completion of prior year projects for streets, contributing to the change in construction in progress as of year-end.

Additional details of capital asset activity for the year can be found in the notes to basic financial statements.

Long-Term Liabilities – The debt service funds account for the accumulation of resources to finance the City’s general obligation bonds within the governmental activities. The revenue sources for these funds include annual tax levies, tax increments, and special assessments. General obligation bonds of the business-type activities and revenue bonds are retired by the revenue produced in the associated enterprise fund. If there were insufficient resources in the enterprise funds to retire the general obligation bonds, the City would be obligated to find other sources or levy taxes for their retirement. The net pension liability and compensated absences are paid for by the General Fund and respective enterprise funds. The following table summarizes the City’s long-term liabilities:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 9,880,000	\$ 9,270,000	\$ 5,020,000	\$ 4,645,000	\$ 14,900,000	\$ 13,915,000
Revenue bonds	–	–	505,000	600,000	505,000	600,000
Net pension liability	304,421	–	618,067	–	922,488	–
Compensated absences	44,929	44,020	73,170	70,131	118,099	114,151
Total	<u>\$ 10,229,350</u>	<u>\$ 9,314,020</u>	<u>\$ 6,216,237</u>	<u>\$ 5,315,131</u>	<u>\$ 16,445,587</u>	<u>\$ 14,629,151</u>

The City has sufficient funds on hand to make all required bond payments, and anticipates an ongoing stream of revenue to make future bond payments. The increase in bonds payable reflects the City’s scheduled repayment plans and issuance of bonds in the current year for refunding purposes and the 2015 street project.

The City reported a change in accounting principle for pensions as previously discussed, which required the reporting of a net pension liability in the current year. Prior year balances have not been restated for this new standard.

Additional details of long-term debt activity for the year can be found in the notes to basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City’s elected officials considered many factors when adopting the balanced budget for fiscal year 2016. The 2016 General Fund budget was set at \$2,568,233, an increase of \$49,131, or 1.95 percent, from the budget for 2015.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional information should be addressed by writing to the City of Circle Pines, 200 Civic Heights Circle, Circle Pines, Minnesota 55014, or by calling (763) 784-5898.

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BASIC FINANCIAL STATEMENTS

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CITY OF CIRCLE PINES

Statement of Net Position
December 31, 2015

	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and temporary investments	\$ 9,273,716	\$ 6,233,397	\$ 15,507,113
Cash and investments held by trustee	755,820	600,000	1,355,820
Receivables			
Accounts	32,104	415,701	447,805
Accrued interest	28,967	17,184	46,151
Taxes – delinquent	32,526	–	32,526
Special assessments – delinquent	1,713	12,959	14,672
Special assessments – deferred	1,023,510	45,521	1,069,031
Due from other governmental units	757,074	9,914	766,988
Prepaid items and supplies	6,921	143,029	149,950
Capital assets			
Not depreciated	666,188	4,153	670,341
Depreciated, net	12,550,113	11,199,017	23,749,130
Total capital assets, net of depreciation	<u>13,216,301</u>	<u>11,203,170</u>	<u>24,419,471</u>
Total assets	<u>25,128,652</u>	<u>18,680,875</u>	<u>43,809,527</u>
Deferred outflows of resources			
Pension plan deferments – PERA	41,800	84,868	126,668
Total assets and deferred outflows of resources	<u>\$ 25,170,452</u>	<u>\$ 18,765,743</u>	<u>\$ 43,936,195</u>
Liabilities			
Accounts and contracts payable	\$ 181,131	\$ 227,394	\$ 408,525
Salaries payable	9,427	18,433	27,860
Accrued interest payable	102,146	65,997	168,143
Due to other governmental units	1,239	21,442	22,681
Long-term liabilities			
Due within one year	1,504,929	1,088,170	2,593,099
Due in more than one year	8,724,421	5,128,067	13,852,488
Total long-term liabilities	<u>10,229,350</u>	<u>6,216,237</u>	<u>16,445,587</u>
Total liabilities	<u>10,523,293</u>	<u>6,549,503</u>	<u>17,072,796</u>
Deferred inflows of resources			
Pension plan deferments – PERA	39,763	80,731	120,494
Net position			
Net investment in capital assets	5,105,798	6,436,790	11,542,588
Restricted for			
Debt service	1,743,684	47,750	1,791,434
Park dedicated improvements	291,015	–	291,015
Tax increment allowable costs	43,413	–	43,413
Unrestricted	7,423,486	5,650,969	13,074,455
Total net position	<u>14,607,396</u>	<u>12,135,509</u>	<u>26,742,905</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 25,170,452</u>	<u>\$ 18,765,743</u>	<u>\$ 43,936,195</u>

See notes to basic financial statements

CITY OF CIRCLE PINES

Statement of Activities
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 538,716	\$ 73,791	\$ -	\$ -
Public safety	1,172,029	14,375	49,525	-
Public works	559,892	35,167	-	631,945
Parks and recreation	545,601	-	-	22,772
Interest and fiscal costs	172,510	-	-	-
Total governmental activities	<u>2,988,748</u>	<u>123,333</u>	<u>49,525</u>	<u>654,717</u>
Business-type activities				
Gas	2,734,185	2,793,104	-	-
Water	487,187	518,463	5,409	-
Sewer	656,101	729,667	-	-
Storm water	128,476	176,751	-	-
Solid waste	380,721	405,373	28,699	-
Total business-type activities	<u>4,386,670</u>	<u>4,623,358</u>	<u>34,108</u>	<u>-</u>
Total governmental and business-type activities	<u>\$ 7,375,418</u>	<u>\$ 4,746,691</u>	<u>\$ 83,633</u>	<u>\$ 654,717</u>

General revenues

Property taxes
Franchise tax
General grants and contributions
Other general revenues
Investment earnings
Total general revenues

Change in net position

Net position – beginning, as previously reported
Change in accounting principle
Net position – beginning, restated

Net position – ending

See notes to basic financial statements

Net (Expenses)
Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (464,925)	\$ —	\$ (464,925)
(1,108,129)	—	(1,108,129)
107,220	—	107,220
(522,829)	—	(522,829)
(172,510)	—	(172,510)
<u>(2,161,173)</u>	<u>—</u>	<u>(2,161,173)</u>
—	58,919	58,919
—	36,685	36,685
—	73,566	73,566
—	48,275	48,275
—	53,351	53,351
<u>—</u>	<u>270,796</u>	<u>270,796</u>
(2,161,173)	270,796	(1,890,377)
2,446,658	—	2,446,658
128,495	—	128,495
447,650	—	447,650
155,979	—	155,979
104,874	82,128	187,002
<u>3,283,656</u>	<u>82,128</u>	<u>3,365,784</u>
1,122,483	352,924	1,475,407
13,781,154	12,384,044	26,165,198
(296,241)	(601,459)	(897,700)
<u>13,484,913</u>	<u>11,782,585</u>	<u>25,267,498</u>
<u>\$ 14,607,396</u>	<u>\$ 12,135,509</u>	<u>\$ 26,742,905</u>

CITY OF CIRCLE PINES

Balance Sheet
 Governmental Funds
 December 31, 2015

	General Fund	Special Revenue Funds	
		Tax Increment District No. 1-1 South	Tax Increment District No. 1-4 North
Assets			
Cash and temporary investments	\$ 3,025,898	\$ 734	\$ 67,605
Cash and investments held by trustee	—	—	—
Receivables			
Accounts	8,339	—	—
Accrued interest	9,824	—	431
Taxes – delinquent	32,526	—	—
Special assessments – delinquent	87	—	—
Special assessments – deferred	220	—	—
Due from other governmental units	19,531	—	—
Advances to other funds	—	—	—
Prepaid items and supplies	6,921	—	—
Total assets	\$ 3,103,346	\$ 734	\$ 68,036
Liabilities			
Accounts and contracts payable	\$ 37,211	\$ —	\$ 2,073
Salaries payable	9,427	—	—
Due to other governments	505	734	—
Advances from other funds	—	—	400,000
Total liabilities	47,143	734	402,073
Deferred inflows of resources			
Unavailable revenue – property taxes	32,526	—	—
Unavailable revenue – special assessments	307	—	—
Unavailable revenue – long-term receivable	—	—	—
Total deferred inflows of resources	32,833	—	—
Fund balances (deficits)			
Nonspendable	6,921	—	—
Restricted	—	—	—
Assigned	2,178,663	—	—
Unassigned	837,786	—	(334,037)
Total fund balances (deficits)	3,023,370	—	(334,037)
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,103,346	\$ 734	\$ 68,036

See notes to basic financial statements

Debt Service Funds		Capital Project Funds				
Capital Improvement Plan Bonds	Tax Increment Bonds	Permanent Improvement Revolving	Street Project	Nonmajor Funds	Totals	
\$ 234,850	\$ -	\$ 804,642	\$ 3,125,077	\$ 2,014,910	\$ 9,273,716	
-	-	-	-	755,820	755,820	
-	-	-	23,765	-	32,104	
643	-	1,975	11,190	4,904	28,967	
-	-	-	-	-	32,526	
-	-	-	-	1,626	1,713	
-	-	-	-	1,023,290	1,023,510	
737,529	-	-	-	14	757,074	
-	-	400,000	-	-	400,000	
-	-	-	-	-	6,921	
<u>\$ 973,022</u>	<u>\$ -</u>	<u>\$ 1,206,617</u>	<u>\$ 3,160,032</u>	<u>\$ 3,800,564</u>	<u>\$ 12,312,351</u>	
\$ -	\$ -	\$ -	\$ 141,360	\$ 487	\$ 181,131	
-	-	-	-	-	9,427	
-	-	-	-	-	1,239	
-	-	-	-	-	400,000	
-	-	-	141,360	487	591,797	
-	-	-	-	-	32,526	
-	-	-	-	1,024,916	1,025,223	
735,000	-	-	-	-	735,000	
<u>735,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,024,916</u>	<u>1,792,749</u>	
-	-	-	-	-	6,921	
238,022	-	-	278,677	1,673,140	2,189,839	
-	-	1,206,617	2,739,995	1,102,021	7,227,296	
-	-	-	-	-	503,749	
<u>238,022</u>	<u>-</u>	<u>1,206,617</u>	<u>3,018,672</u>	<u>2,775,161</u>	<u>9,927,805</u>	
<u>\$ 973,022</u>	<u>\$ -</u>	<u>\$ 1,206,617</u>	<u>\$ 3,160,032</u>	<u>\$ 3,800,564</u>	<u>\$ 12,312,351</u>	

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CITY OF CIRCLE PINES

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

Total fund balances – governmental funds	\$ 9,927,805
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds (see Note 3 for more details on capital assets).	
Not depreciated	666,188
Depreciated, net	12,550,113
Long-term liabilities are not payable with current financial resources and, therefore, are not reported as liabilities in the governmental funds (see Note 4 for more details on long-term debt).	
Due within one year	(1,504,929)
Due in more than one year	(8,724,421)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities statements and the modified accrual statements.	
Deferred outflows of resources – pension plan deferments – PERA	41,800
Deferred inflows of resources – pension plan deferments – PERA	(39,763)
Deferred inflows of resources – unavailable revenues	1,792,749
Accrued interest payable is included in net position, but is excluded from fund balances until due and payable.	<u>(102,146)</u>
Total net position – governmental activities	<u><u>\$ 14,607,396</u></u>

See notes to basic financial statements

CITY OF CIRCLE PINES

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

	General Fund	Special Revenue Funds	
		Tax Increment District No. 1-1 South	Tax Increment District No. 1-4 North
Revenue			
Taxes			
Property taxes	\$ 1,991,059	\$ 672	\$ 152,719
Franchise tax	—	—	—
Special assessments	1,840	—	—
Licenses and permits	73,791	—	—
Intergovernmental revenue	397,980	—	—
Charges for services	35,167	—	—
Fines and forfeits	14,375	—	—
Other revenue			
Investment earnings	25,898	8,319	864
Interfund loan interest	—	—	—
Lease and rental	—	—	—
Miscellaneous	41,129	—	—
Total revenue	<u>2,581,239</u>	<u>8,991</u>	<u>153,583</u>
Expenditures			
Current			
General government	428,413	8,780	3,354
Public safety	1,126,821	—	—
Public works	207,467	—	—
Parks and recreation	439,003	—	—
Insurance	53,685	—	—
Capital outlay	—	—	—
Debt service			
Principal retirement	—	—	—
Interest and other	—	—	—
Interfund loan interest	—	16,000	—
Total expenditures	<u>2,255,389</u>	<u>24,780</u>	<u>3,354</u>
Excess (deficiency) of revenue over expenditures	325,850	(15,789)	150,229
Other financing sources (uses)			
Bonds issued	—	—	—
Premium on bonds issued	—	—	—
Transfers in	—	676,636	—
Transfers (out)	(265,427)	(679,409)	(4,815)
Total other financing sources (uses)	<u>(265,427)</u>	<u>(2,773)</u>	<u>(4,815)</u>
Net change in fund balances	60,423	(18,562)	145,414
Fund balances (deficits)			
Beginning of year	<u>2,962,947</u>	<u>18,562</u>	<u>(479,451)</u>
End of year	<u>\$ 3,023,370</u>	<u>\$ —</u>	<u>\$ (334,037)</u>

See notes to basic financial statements

Debt Service Funds		Capital Project Funds			Nonmajor Funds	Totals
Capital Improvement Plan Bonds	Tax Increment Bonds	Permanent Improvement Revolving	Street Project			
\$ 73,639	\$ —	\$ —	\$ —	\$ 240,507	\$ 2,458,596	
—	—	—	128,495	—	128,495	
—	—	—	—	434,685	436,525	
—	—	—	—	—	73,791	
125,000	—	—	—	89,195	612,175	
—	—	—	—	—	35,167	
—	—	—	—	—	14,375	
1,866	—	8,505	40,594	18,828	104,874	
—	—	16,000	—	—	16,000	
—	—	—	—	119,408	119,408	
—	—	—	—	18,214	59,343	
<u>200,505</u>	<u>—</u>	<u>24,505</u>	<u>169,089</u>	<u>920,837</u>	<u>4,058,749</u>	
—	—	—	—	16,344	456,891	
—	—	—	—	—	1,126,821	
—	—	—	2,968	—	210,435	
—	—	—	—	—	439,003	
—	—	—	—	—	53,685	
—	—	—	1,938,697	171,558	2,110,255	
175,000	640,000	—	—	295,000	1,110,000	
16,070	44,224	—	60,801	157,828	278,923	
—	—	—	—	—	16,000	
<u>191,070</u>	<u>684,224</u>	<u>—</u>	<u>2,002,466</u>	<u>640,730</u>	<u>5,802,013</u>	
9,435	(684,224)	24,505	(1,833,377)	280,107	(1,743,264)	
—	—	—	995,000	725,000	1,720,000	
—	—	—	87,991	30,820	118,811	
—	684,224	—	265,427	19,390	1,645,677	
—	—	(676,636)	(19,390)	—	(1,645,677)	
<u>—</u>	<u>684,224</u>	<u>(676,636)</u>	<u>1,329,028</u>	<u>775,210</u>	<u>1,838,811</u>	
9,435	—	(652,131)	(504,349)	1,055,317	95,547	
<u>228,587</u>	<u>—</u>	<u>1,858,748</u>	<u>3,523,021</u>	<u>1,719,844</u>	<u>9,832,258</u>	
<u>\$ 238,022</u>	<u>\$ —</u>	<u>\$ 1,206,617</u>	<u>\$ 3,018,672</u>	<u>\$ 2,775,161</u>	<u>\$ 9,927,805</u>	

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CITY OF CIRCLE PINES

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

Total net change in fund balances – governmental funds \$ 95,547

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense (see Note 3 for more details on changes in capital assets).

Capital outlays	2,110,255
Depreciation expense	(522,351)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Other long-term debt adjustments are also made between the governmental funds and the Statement of Activities for compensated absences and net pension liability (see Note 4 for more details on changes in long-term debt).

Governmental activities – additions to long-term debt	(1,839,981)
Governmental activities – deletions of long-term debt	1,233,136

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

(12,398)

The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.

Deferred outflows of resources – pension plan deferments – PERA	29,556
Deferred inflows of resources – pension plan deferments – PERA	(39,763)
Deferred inflows of resources – unavailable revenues	68,482

Change in net position – governmental activities	<u>\$ 1,122,483</u>
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See notes to basic financial statements

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CITY OF CIRCLE PINES

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

	Original and Final Budget	Actual	Over (Under) Final Budget
Revenue			
Property taxes	\$ 1,982,832	\$ 1,991,059	\$ 8,227
Special assessments	-	1,840	1,840
Licenses and permits	51,550	73,791	22,241
Intergovernmental revenue	388,745	397,980	9,235
Charges for services	30,475	35,167	4,692
Fines and forfeits	25,000	14,375	(10,625)
Other revenue			
Investment earnings	15,000	25,898	10,898
Miscellaneous	25,500	41,129	15,629
Total revenue	<u>2,519,102</u>	<u>2,581,239</u>	<u>62,137</u>
Expenditures			
Current			
General government	424,758	428,413	3,655
Public safety	1,197,249	1,126,821	(70,428)
Public works	257,946	207,467	(50,479)
Parks and recreation	465,686	439,003	(26,683)
Insurance	108,036	53,685	(54,351)
Total expenditures	<u>2,453,675</u>	<u>2,255,389</u>	<u>(198,286)</u>
Excess of revenue over expenditures	65,427	325,850	260,423
Other financing sources (uses)			
Transfers out	<u>(65,427)</u>	<u>(265,427)</u>	<u>(200,000)</u>
Net change in fund balances	<u>\$ -</u>	60,423	<u>\$ 60,423</u>
Fund balances			
Beginning of year		<u>2,962,947</u>	
End of year		<u>\$ 3,023,370</u>	

See notes to basic financial statements

CITY OF CIRCLE PINES

Statement of Net Position
Proprietary Funds
December 31, 2015

	Business-Type Activities – Enterprise Funds			
	Circle Pines Gas Utility	Lino Lakes Gas Utility	Blaine Gas Utility	Water Utility
Assets				
Current assets				
Cash and temporary investments	\$ 934,484	\$ 186,593	\$ –	\$ 2,527,665
Cash and investments held by trustee	–	–	–	222,000
Receivables				
Accounts				
Utilities – customers	99,841	148,896	5,934	10,517
Miscellaneous	1,008	–	–	–
Accrued interest	2,750	509	–	6,794
Special assessments – delinquent	–	–	–	12,959
Special assessments – deferred	–	–	–	45,521
Due from other governmental units	6,142	–	–	3,772
Due from other funds	436,293	–	–	–
Prepaid items and supplies	126,738	12,413	154	2,316
Total current assets	1,607,256	348,411	6,088	2,831,544
Noncurrent assets				
Advances to other funds	–	–	–	450,000
Capital assets				
Land	–	–	–	–
Buildings and structures	49,379	14,859	–	957,235
Furniture and equipment	819,783	646,252	30,855	553,506
Improvements other than buildings	2,256,804	1,157,489	357,199	4,900,332
Utility rights	–	393,682	–	–
Total capital assets	3,125,966	2,212,282	388,054	6,411,073
Less accumulated depreciation	1,633,746	1,456,744	113,325	2,964,299
Net capital assets	1,492,220	755,538	274,729	3,446,774
Total noncurrent assets	1,492,220	755,538	274,729	3,896,774
Total assets	3,099,476	1,103,949	280,817	6,728,318
Deferred outflows of resources				
Pension plan deferments – PERA	35,467	27,867	1,267	11,400
Total assets and deferred outflows of resources	\$ 3,134,943	\$ 1,131,816	\$ 282,084	\$ 6,739,718
Liabilities				
Current liabilities				
Accounts and contracts payable	\$ 97,501	\$ 89,170	\$ 3,722	\$ 2,870
Salaries payable	7,465	6,258	260	2,623
Accrued interest payable	3,563	642	1,926	22,914
Due to other governmental units	4,272	11,521	–	5,642
Due to other funds	–	–	436,293	–
Compensated absences payable – current	28,656	25,130	1,152	10,562
Bonds payable – current	55,214	9,947	29,839	345,000
Total current liabilities	196,671	142,668	473,192	389,611
Noncurrent liabilities				
Advances from other funds	450,000	–	–	–
Net pension liability	258,297	202,947	9,225	83,024
Bonds payable, net of current portion	238,292	42,927	128,781	1,562,000
Total noncurrent liabilities	946,589	245,874	138,006	1,645,024
Total liabilities	1,143,260	388,542	611,198	2,034,635
Deferred inflows of resources				
Pension plan deferments – PERA	33,738	26,509	1,205	10,844
Net position				
Net investment in capital assets	1,198,714	702,664	274,729	1,761,774
Restricted for				
Debt service	27,750	5,000	15,000	–
Unrestricted	731,481	9,101	(620,048)	2,932,465
Total net position	1,957,945	716,765	(330,319)	4,694,239
Total liabilities, deferred inflows of resources, and net position	\$ 3,134,943	\$ 1,131,816	\$ 282,084	\$ 6,739,718

See notes to basic financial statements

<u>Sewer Utility</u>	<u>Storm Water Utility</u>	<u>Solid Waste Utility</u>	<u>Total</u>
\$ 1,147,325	\$ 626,270	\$ 811,060	\$ 6,233,397
300,000	78,000	-	600,000
86,479	19,826	43,200	414,693
-	-	-	1,008
3,172	1,726	2,233	17,184
-	-	-	12,959
-	-	-	45,521
-	-	-	9,914
-	-	-	436,293
1,408	-	-	143,029
<u>1,538,384</u>	<u>725,822</u>	<u>856,493</u>	<u>7,913,998</u>
-	-	-	450,000
4,153	-	-	4,153
15,130	-	-	1,036,603
610,721	-	-	2,661,117
4,550,659	3,346,098	-	16,568,581
-	-	-	393,682
<u>5,180,663</u>	<u>3,346,098</u>	<u>-</u>	<u>20,664,136</u>
<u>2,179,939</u>	<u>1,112,913</u>	<u>-</u>	<u>9,460,966</u>
<u>3,000,724</u>	<u>2,233,185</u>	<u>-</u>	<u>11,203,170</u>
<u>3,000,724</u>	<u>2,233,185</u>	<u>-</u>	<u>11,653,170</u>
4,539,108	2,959,007	856,493	19,567,168
8,867	-	-	84,868
<u>\$ 4,547,975</u>	<u>\$ 2,959,007</u>	<u>\$ 856,493</u>	<u>\$ 19,652,036</u>
\$ 3,820	\$ 743	\$ 29,568	\$ 227,394
1,827	-	-	18,433
25,443	11,509	-	65,997
-	-	7	21,442
-	-	-	436,293
7,670	-	-	73,170
<u>430,000</u>	<u>145,000</u>	<u>-</u>	<u>1,015,000</u>
<u>468,760</u>	<u>157,252</u>	<u>29,575</u>	<u>1,857,729</u>
-	-	-	450,000
64,574	-	-	618,067
<u>1,730,000</u>	<u>808,000</u>	<u>-</u>	<u>4,510,000</u>
<u>1,794,574</u>	<u>808,000</u>	<u>-</u>	<u>5,578,067</u>
2,263,334	965,252	29,575	7,435,796
8,435	-	-	80,731
1,140,724	1,358,185	-	6,436,790
-	-	-	47,750
<u>1,135,482</u>	<u>635,570</u>	<u>826,918</u>	<u>5,650,969</u>
<u>2,276,206</u>	<u>1,993,755</u>	<u>826,918</u>	<u>12,135,509</u>
<u>\$ 4,547,975</u>	<u>\$ 2,959,007</u>	<u>\$ 856,493</u>	<u>\$ 19,652,036</u>

CITY OF CIRCLE PINES

Statement of Revenue, Expenses, and Changes in Net Position
 Proprietary Funds
 Year Ended December 31, 2015

	Business-Type Activities – Enterprise Funds			
	Circle Pines Gas Utility	Lino Lakes Gas Utility	Blaine Gas Utility	Water Utility
Operating revenues				
Charges for sales and services				
Gas	\$ 1,364,412	\$ 1,393,846	\$ 33,590	\$ –
Water	–	–	–	441,949
Sewer	–	–	–	–
Storm sewer	–	–	–	–
Solid waste	–	–	–	–
Total operating revenues	<u>1,364,412</u>	<u>1,393,846</u>	<u>33,590</u>	<u>441,949</u>
Operating expenses				
Cost of sales and services	985,101	1,009,316	24,443	138,092
Administration	247,826	157,825	10,851	104,339
Depreciation expense	98,436	75,665	11,096	190,440
Franchise fee	43,918	47,914	–	–
Total operating expenses	<u>1,375,281</u>	<u>1,290,720</u>	<u>46,390</u>	<u>432,871</u>
Operating income (loss)	(10,869)	103,126	(12,800)	9,078
Nonoperating revenues (expenses)				
Intergovernmental	–	–	–	5,409
Investment earnings	12,778	1,707	–	38,235
Other income	969	287	–	76,514
Gain on sale of capital assets	4,713	2,538	–	–
Interest expense	(20,859)	(2,047)	(6,139)	(54,316)
Total nonoperating revenues (expenses)	<u>(2,399)</u>	<u>2,485</u>	<u>(6,139)</u>	<u>65,842</u>
Change in net position	(13,268)	105,611	(18,939)	74,920
Net position				
Beginning of year, as previously reported	2,222,569	808,648	(302,403)	4,700,112
Change in accounting principle	(251,356)	(197,494)	(8,977)	(80,793)
Beginning of year, restated	<u>1,971,213</u>	<u>611,154</u>	<u>(311,380)</u>	<u>4,619,319</u>
End of year	<u>\$ 1,957,945</u>	<u>\$ 716,765</u>	<u>\$ (330,319)</u>	<u>\$ 4,694,239</u>

See notes to basic financial statements

<u>Sewer Utility</u>	<u>Storm Water Utility</u>	<u>Solid Waste Utility</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 2,791,848
-	-	-	441,949
729,236	-	-	729,236
-	176,751	-	176,751
-	-	404,359	404,359
<u>729,236</u>	<u>176,751</u>	<u>404,359</u>	<u>4,544,143</u>
382,166	15,930	380,721	2,935,769
65,851	-	-	586,692
148,661	84,917	-	609,215
-	-	-	91,832
<u>596,678</u>	<u>100,847</u>	<u>380,721</u>	<u>4,223,508</u>
132,558	75,904	23,638	320,635
-	-	28,699	34,108
12,818	7,188	9,402	82,128
431	-	1,014	79,215
-	-	-	7,251
<u>(59,423)</u>	<u>(27,629)</u>	<u>-</u>	<u>(170,413)</u>
<u>(46,174)</u>	<u>(20,441)</u>	<u>39,115</u>	<u>32,289</u>
86,384	55,463	62,753	352,924
2,252,661	1,938,292	764,165	12,384,044
<u>(62,839)</u>	<u>-</u>	<u>-</u>	<u>(601,459)</u>
<u>2,189,822</u>	<u>1,938,292</u>	<u>764,165</u>	<u>11,782,585</u>
<u>\$ 2,276,206</u>	<u>\$ 1,993,755</u>	<u>\$ 826,918</u>	<u>\$ 12,135,509</u>

CITY OF CIRCLE PINES

Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2015

	Business-Type Activities – Enterprise Funds			
	Circle Pines Gas Utility	Lino Lakes Gas Utility	Blaine Gas Utility	Water Utility
Cash flows from operating activities				
Cash received from customers	\$ 1,539,692	\$ 1,585,300	\$ 36,095	\$ 446,580
Cash paid to suppliers	(1,014,079)	(1,048,993)	(24,522)	(138,790)
Cash paid to employees	(351,721)	(278,081)	(11,004)	(117,222)
Cash received from other sources	969	287	–	76,514
Net cash flows from operating activities	<u>174,861</u>	<u>258,513</u>	<u>569</u>	<u>267,082</u>
Cash flows from noncapital financing activities				
Subsidy from state grant	–	–	–	5,409
Cash received from other funds	–	–	35,707	–
Cash paid to other funds	(18,309)	(17,398)	–	–
Net cash flows from noncapital financing activities	<u>(18,309)</u>	<u>(17,398)</u>	<u>35,707</u>	<u>5,409</u>
Cash flows from capital and related financing activities				
Proceeds from issuance of bonds	–	–	–	222,000
Acquisition of capital assets	(466,358)	(46,165)	–	(63,353)
Proceeds from sale of capital assets	4,713	2,538	–	–
Principal paid on bonds	(55,214)	(9,947)	(29,839)	(75,000)
Interest paid on bonds	(21,411)	(2,146)	(6,437)	(52,667)
Cash received from other funds	–	–	–	50,000
Cash paid to other funds	(50,000)	–	–	–
Net cash flows from capital and related financing activities	<u>(588,270)</u>	<u>(55,720)</u>	<u>(36,276)</u>	<u>80,980</u>
Cash flows from investing activities				
Earnings on investments	11,984	1,198	–	33,775
Net change in cash and cash equivalents	<u>(419,734)</u>	<u>186,593</u>	<u>–</u>	<u>387,246</u>
Cash and cash equivalents				
Beginning of year	1,354,218	–	–	2,362,419
End of year	<u>\$ 934,484</u>	<u>\$ 186,593</u>	<u>\$ –</u>	<u>\$ 2,749,665</u>
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	\$ (10,869)	\$ 103,126	\$ (12,800)	\$ 9,078
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Depreciation	98,436	75,665	11,096	190,440
Other income	969	287	–	76,514
Change in assets, liabilities, deferred inflows/outflows				
Receivables				
Accounts – utility customers	180,414	191,454	2,505	(1,216)
Accounts – miscellaneous	464	–	–	–
Special assessments – delinquent	–	–	–	2,227
Special assessments – deferred	–	–	–	6,626
Due from other governments	(5,598)	–	–	(3,006)
Prepaid items and supplies	2,821	(1,257)	–	(749)
Deferred outflows of resources	(25,078)	(19,705)	(896)	(8,061)
Accounts and contracts payable	(89,314)	(102,918)	(232)	(15,372)
Salaries payable	308	353	14	162
Due to other governmental units	(8,166)	(13,573)	(383)	(126)
Compensated absences payable	184	1,281	183	829
Net pension liability	(3,448)	(2,709)	(123)	(1,108)
Deferred inflows of resources	33,738	26,509	1,205	10,844
Net cash flows from operating activities	<u>\$ 174,861</u>	<u>\$ 258,513</u>	<u>\$ 569</u>	<u>\$ 267,082</u>
Noncash investing, capital, and financing activities				
Capital asset purchased on account – accounts and contracts payable	\$ (394,336)	\$ –	\$ –	\$ –

See notes to basic financial statements

Sewer Utility	Storm Water Utility	Solid Waste Utility	Total
\$ 729,331	\$ 177,867	\$ 418,788	\$ 4,933,653
(389,497)	(16,588)	(379,046)	(3,011,515)
(80,733)	-	(2,392)	(841,153)
431	-	1,014	79,215
<u>259,532</u>	<u>161,279</u>	<u>38,364</u>	<u>1,160,200</u>
-	-	28,699	34,108
-	-	-	35,707
-	-	-	(35,707)
<u>-</u>	<u>-</u>	<u>28,699</u>	<u>34,108</u>
300,000	78,000	-	600,000
(14,711)	(35,717)	-	(626,304)
-	-	-	7,251
(100,000)	(50,000)	-	(320,000)
(57,280)	(27,291)	-	(167,232)
-	-	-	50,000
-	-	-	(50,000)
<u>128,009</u>	<u>(35,008)</u>	<u>-</u>	<u>(506,285)</u>
10,681	6,026	7,895	71,559
398,222	132,297	74,958	759,582
1,049,103	571,973	736,102	6,073,815
<u>\$ 1,447,325</u>	<u>\$ 704,270</u>	<u>\$ 811,060</u>	<u>\$ 6,833,397</u>
\$ 132,558	\$ 75,904	\$ 23,638	\$ 320,635
148,661	84,917	-	609,215
431	-	1,014	79,215
95	1,116	9,288	383,656
-	-	-	464
-	-	-	2,227
-	-	-	6,626
-	-	5,141	(3,463)
(557)	170	-	428
(6,270)	-	-	(60,010)
(23,617)	(828)	2,668	(229,613)
96	-	-	933
-	-	(3,385)	(25,633)
562	-	-	3,039
(862)	-	-	(8,250)
<u>8,435</u>	<u>-</u>	<u>-</u>	<u>80,731</u>
<u>\$ 259,532</u>	<u>\$ 161,279</u>	<u>\$ 38,364</u>	<u>\$ 1,160,200</u>
\$ -	\$ -	\$ -	\$ (394,336)

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CITY OF CIRCLE PINES

Notes to Basic Financial Statements December 31, 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The City of Circle Pines, Minnesota (the City) operates under the “Optional Plan A” form of government as defined in Minnesota Statutes. Under this plan, the government of the City is run by a council composed of an elected mayor and four elected councilmembers. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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.

The City Council appoints the voting majority of the Centennial Utilities Commission’s Board. The Circle Pines Housing and Redevelopment Authority (HRA) Board is comprised of the same members as the City Council. Based on the general level of control by the City over these entities, the Centennial Utilities Commission and the HRA are included as component units of the City. The financial data of these component units are blended with that of the City (reported as though their funds were funds of the City).

The City also participates in two joint ventures which are not included in the City’s financial statements. Descriptions and condensed financial information for these joint ventures are included later in these notes.

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information on all activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Depreciation expense is included in the direct expenses of each function. Interest on long-term debt of governmental activities 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. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Major revenue that is susceptible to accrual includes property 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 other long-term obligations, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds.

Proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Funds

The City reports the following major governmental funds:

General Fund – The General Fund 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.

Tax Increment District No. 1-1 South Special Revenue Fund – This fund accounts for the collection of tax increments from District No. 1-1, redistributes those resources to funds responsible for related debt requirements, and accounts for the allowable capital costs to develop the district.

Tax Increment District No. 1-4 North Special Revenue Fund – This fund accounts for the collection of tax increments from District No. 1-4, redistributes those resources to funds responsible for related debt requirements, and accounts for the allowable capital costs to develop the district.

Capital Improvement Plan Bonds Debt Service Fund – This fund accounts for the collection of resources for, and the repayment of, debt issued to finance the Centennial Lakes Police Department facilities.

Tax Increment Bonds Debt Service Fund – This fund accounts for the collection of resources and repayment of the tax increment debt portion of the street project and refunding bonds of 2012.

Permanent Improvement Revolving Capital Project Fund – This fund is used to account for the financial resources to be used for capital improvements of the City's governmental activities.

Street Project Capital Project Fund – This fund is used to account for the financial resources to be used for capital improvements of city streets and surrounding areas.

The City reports the following major proprietary funds:

Circle Pines, Lino Lakes, and Blaine Gas Utility Enterprise Funds – These funds are used to account for the operation, maintenance, and improvement of the City's gas utility systems within the cities of Circle Pines, Lino Lakes, and Blaine.

Water Utility Enterprise Fund – The Water Utility Enterprise Fund is used to account for the operation, maintenance, and improvement of the City's water utility system.

Sewer Utility Enterprise Fund – The Sewer Utility Enterprise Fund is used to account for the operation, maintenance, and improvement of the City's sewer utility system.

Storm Water Utility Enterprise Fund – The Storm Water Utility Enterprise Fund is used to account for the operation, maintenance, and improvement of the City's storm water utility system.

Solid Waste Utility Enterprise Fund – The Solid Waste Utility Enterprise Fund is used to account for the operation, maintenance, and improvement of the City's solid waste utility system, including recycling services.

E. Budgets and Budgetary Accounting

Each fall the City Council adopts a General Fund budget for the following fiscal year beginning January 1. The City has established budgetary control at the fund level. Budget appropriations lapse at year-end. Budget amounts are presented on a modified accrual basis of accounting.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Cash and investments held by trustee include balances held in an escrow account that are restricted for future bond refunding. Interest earned on these balances is allocated directly to the applicable fund.

Investments are generally stated at fair value, except for investments in 2a7-like external investment pools, which are stated at amortized cost. The Minnesota Municipal Money Market Fund is an external investment pool regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities that is not registered with the Securities and Exchange Commission (SEC), but follows the same regulatory rules of the SEC under rule 2a7. The City's investment in this 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. The fund is not rated by a nationally recognized rating agency.

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

G. Receivables

Utility and miscellaneous accounts receivable are reported at gross. Since the City is generally able to certify delinquent amounts to the county for collection as special assessments, no allowance for uncollectible accounts has been provided on current receivables. The City does record an allowance for the amount of utility receivables that remain delinquent after having been certified to the county. The only receivables not expected to be fully collected within one year are property taxes receivable, special assessments receivable, and the remaining balance in due from other governments for future debt payments as described in Note 12.

H. Property Taxes

Property tax levies are set by the City Council in December of each year, and are certified to Anoka County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads the levies over all 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.

Property taxes are recognized as revenue in the year levied in the government-wide financial statements and proprietary fund financial statements. In the governmental fund financial statements, taxes are recognized as revenue when received in cash or within 60 days after year-end. Taxes which remain unpaid on December 31 are classified as delinquent taxes receivable, and are offset by deferred inflows of resources in the governmental fund financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. Special assessments are recorded as receivables upon certification to the county. Special assessments are recognized as revenue in the year levied in the government-wide financial statements and proprietary fund financial statements. In the governmental fund financial statements, special assessments are recognized as revenue when received in cash or within 60 days after year-end. Governmental fund special assessments receivable which remain unpaid on December 31 are offset by deferred inflows of resources in the governmental fund financial statements.

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. Prepaid Items and Supplies

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. The inventories of the City’s funds are recorded as prepaid items and supplies at the lower of cost or market on the first-in, first-out basis. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

L. Capital Assets

Capital assets, which include land, buildings and structures, furniture and equipment, improvements other than buildings (infrastructure assets), utility rights, and construction in progress, 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 at the date of donation. The City defines capital assets as those with an initial, individual cost of \$500 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.

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. Capital assets are depreciated using the straight-line method over their estimated useful lives. Land and construction in progress are not depreciated. Useful lives vary from 10 to 50 years for buildings and structures, 3 to 20 years for furniture and equipment, 5 to 50 years for improvements other than buildings, and 10 years for utility rights.

M. Compensated Absences Payable

Substantially all regular full-time and permanent part-time city employees earn annual leave at various rates based on longevity. Unused annual leave may be accumulated up to a maximum of 240 hours for employees with less than 15 years of employment with the City and 280 hours with over 15 years of employment. These compensated absences are paid to an employee leaving in good standing, at their current rate of pay. Compensated absences payable are accounted for as long-term liabilities as described in the following section. The General Fund and enterprise funds are used to liquidate this liability.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Pensions

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

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. If they are material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the governmental fund financial statements, long-term debt and other long-term obligations are not reported as liabilities. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Principal and interest on long-term debt and compensated absences are recorded as expenditures in the governmental fund financial statements to the extent they have matured.

P. Deferred Outflows/Inflows of Resources

In addition to assets, a statement of financial position may report a separate financial statement element called deferred outflows of resources, representing consumptions of net position that apply to future periods which are not recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category, deferred outflows of resources related to pensions, reported in the government-wide and enterprise funds Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, and projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, statements of financial position or balance sheets may report a separate financial statement element called deferred inflows of resources, representing acquisitions of net position that apply to future periods which are not recognized as an inflow of resources (revenue) until that time. The City has two types of items which qualify for reporting in this category.

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Position Classifications and Flow Assumptions

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

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

The City applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

R. Fund Balance Classifications and Flow Assumptions

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 amounts that can be used only for the specific purposes determined by a formal action of the City’s highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.
- **Assigned** – Consists of internally imposed constraints for amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. Assigned amounts represent intended uses established by the City Council itself or by an official to which the City Council delegates the authority. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When both restricted and unrestricted resources are available for use, the City first uses restricted resources, then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, the City uses resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

S. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the City carries insurance. The City 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. The LMCIT operates as a common risk management and insurance program for a large number of cities in Minnesota. The City pays an annual premium to the LMCIT for insurance coverage. The LMCIT agreement provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. The City also carries commercial insurance for certain other risks of loss. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in 2015.

T. Change in Accounting Principle

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

	Governmental Activities	Business-Type Activities	Enterprise Funds
Net position – beginning, as previously reported	\$ 13,781,154	\$ 12,384,044	\$ 12,384,044
Change in accounting principle			
Deferred outflows related to pensions	12,244	24,858	24,858
Net pension liability	<u>(308,485)</u>	<u>(626,317)</u>	<u>(626,317)</u>
Total	<u>(296,241)</u>	<u>(601,459)</u>	<u>(601,459)</u>
Net position – beginning, restated	<u>\$ 13,484,913</u>	<u>\$ 11,782,585</u>	<u>\$ 11,782,585</u>

U. 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 and disclosures at the date of the financial statements, and the reported amounts during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	\$ 277,540
Investments	16,585,143
Cash on hand	<u>250</u>
Total	<u><u>\$ 16,862,933</u></u>

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

Statement of Net Position	
Cash and temporary investments	\$ 15,507,113
Cash and investments held by trustee	<u>1,355,820</u>
Cash and temporary investments	<u><u>\$ 16,862,933</u></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. Negotiable certificates of deposit are included with investments for the purpose of this disclosure.

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 and bank balance was \$277,450. At December 31, 2015, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the City’s agent in the City’s name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The City has the following investments at year-end:

Investment Type	Credit Risk		Interest Risk – Maturity Duration in Years			Total
	Rating	Agency	Less Than 1	1 to 5	5 to 10	
U.S. treasuries	N/A	N/A	\$ –	\$ 148,544	\$ –	\$ 148,544
U.S. agencies	AA+	S&P	–	1,138,366	1,412,168	2,550,534
State and local obligations	AA	S&P	–	2,295,738	219,310	2,515,048
State and local obligations	AA2	Moody's	–	558,870	309,434	868,304
Negotiable certificates of deposit	N/R	N/A	712,233	3,628,298	394,287	4,734,818
Investment pools/mutual funds						
Wells Fargo Advantage	AAA	S&P	5,244	–	–	5,244
RBC Select Class	AAA	S&P	44,007	–	–	44,007
First American Treasury	AAA	S&P	1,355,824	–	–	1,355,824
Minnesota Municipal Money Market Fund	N/R	N/A	4,362,820	–	–	4,362,820
Total investments			<u>\$ 6,480,128</u>	<u>\$ 7,769,816</u>	<u>\$ 2,335,199</u>	<u>\$ 16,585,143</u>

N/A – Not Applicable

N/R – Not Rated

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's investment policy addresses this risk by requiring that securities be held by an independent third-party custodian with identification of the City's ownership.

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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The City's investment policies further limit investments to direct United States government obligations, state and local municipal securities rated in the top rating tiers issued by nationally recognized statistical rating organizations, federal agency issues, shares in mutual funds investing exclusively in United States government and agency issues, obligations of the state of Minnesota or Minnesota municipalities, banker's acceptances, commercial paper, repurchase agreements, reverse purchase agreements, securities lending agreements, guaranteed investment contracts, and interest bearing deposits, all with the same state restrictions.

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. The City's investment policies allow an unlimited amount of United States treasury securities and authorized treasury pools, and certificates of deposit. Any remaining types of investments cannot exceed more than 50 percent of the City's total investment portfolio. Investments with a single financial institution cannot exceed more than 50 percent of the City's total investment portfolio. As of December 31, 2015, the City's investment portfolio includes the following percentages of specific issuers greater than 5 percent: Federal Home Loan Bank at 13.0 percent and obligations of Des Moines, Iowa at 5.9 percent.

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's investment policies do not allow investing more than 15 percent of the total cash and investment balance available at any point for more than 10 years.

NOTE 3 – CAPITAL ASSETS

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

A. Changes in Capital Assets Used in Governmental Activities

	Balance – Beginning of Year	Additions	Deletions	Completed Construction	Balance – End of Year
Capital assets, not depreciated					
Land	\$ 529,453	\$ –	\$ –	\$ –	\$ 529,453
Construction in progress	1,077,157	1,938,697	–	(2,879,119)	136,735
Total capital assets, not depreciated	1,606,610	1,938,697	–	(2,879,119)	666,188
Capital assets, depreciated					
Buildings and structures	4,596,896	–	–	–	4,596,896
Furniture and equipment	1,219,838	171,558	(146,334)	–	1,245,062
Improvements other than buildings	9,851,419	–	–	2,879,119	12,730,538
Total capital assets, depreciated	15,668,153	171,558	(146,334)	2,879,119	18,572,496
Less accumulated depreciation on					
Buildings and structures	(2,132,695)	(134,892)	–	–	(2,267,587)
Furniture and equipment	(711,389)	(83,723)	146,334	–	(648,778)
Improvements other than buildings	(2,802,282)	(303,736)	–	–	(3,106,018)
Total accumulated depreciation	(5,646,366)	(522,351)	146,334	–	(6,022,383)
Net capital assets, depreciated	10,021,787	(350,793)	–	2,879,119	12,550,113
Net capital assets	\$ 11,628,397	\$ 1,587,904	\$ –	\$ –	\$ 13,216,301

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

	Balance – Beginning of Year	Additions	Deletions	Completed Construction	Balance – End of Year
Capital assets, not depreciated					
Land	\$ 4,153	\$ –	\$ –	\$ –	\$ 4,153
Construction in progress	182,942	12,028	–	(194,970)	–
Total capital assets, not depreciated	187,095	12,028	–	(194,970)	4,153
Capital assets, depreciated					
Buildings and structures	1,036,603	–	–	–	1,036,603
Furniture and equipment	2,318,738	175,772	(28,363)	194,970	2,661,117
Improvements other than buildings	16,529,498	44,168	(5,085)	–	16,568,581
Utility rights	393,682	–	–	–	393,682
Total capital assets, depreciated	20,278,521	219,940	(33,448)	194,970	20,659,983
Less accumulated depreciation on					
Buildings and structures	(640,494)	(24,466)	–	–	(664,960)
Furniture and equipment	(1,577,923)	(137,938)	28,363	–	(1,687,498)
Improvements other than buildings	(6,311,942)	(431,218)	5,085	–	(6,738,075)
Utility rights	(354,840)	(15,593)	–	–	(370,433)
Total accumulated depreciation	(8,885,199)	(609,215)	33,448	–	(9,460,966)
Net capital assets, depreciated	11,393,322	(389,275)	–	194,970	11,199,017
Net capital assets	\$ 11,580,417	\$ (377,247)	\$ –	\$ –	\$ 11,203,170

C. Depreciation Expense by Function

Governmental activities	
General government	\$ 24,997
Public safety	45,208
Public works	348,526
Parks and recreation	103,620
Total depreciation expense – governmental activities	\$ 522,351
Business-type activities	
Gas	\$ 185,197
Water	190,440
Sewer	148,661
Storm water	84,917
Total depreciation expense – business-type activities	\$ 609,215

NOTE 4 – LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Change in Accounting Principle*	Additions	Retirements	Balance – End of Year	Due Within One Year
Governmental activities						
General obligation bonds payable	\$ 9,270,000	\$ –	\$ 1,720,000	\$ (1,110,000)	\$ 9,880,000	\$ 1,460,000
Net pension liability	–	308,485	74,513	(78,577)	304,421	–
Compensated absences payable	44,020	–	45,468	(44,559)	44,929	44,929
Total governmental activities	9,314,020	308,485	1,839,981	(1,233,136)	10,229,350	1,504,929
Business-type activities						
General obligation bonds payable	4,645,000	–	600,000	(225,000)	5,020,000	920,000
Revenue bonds payable	600,000	–	–	(95,000)	505,000	95,000
Net pension liability	–	626,317	151,283	(159,533)	618,067	–
Compensated absences payable	70,131	–	84,134	(81,095)	73,170	73,170
Total business-type activities	5,315,131	626,317	835,417	(560,628)	6,216,237	1,088,170
Total long-term liabilities	\$ 14,629,151	\$ 934,802	\$ 2,675,398	\$ (1,793,764)	\$ 16,445,587	\$ 2,593,099

*Adjustment for change in accounting principle to implement GASB Statement No. 68 described earlier in these notes.

B. Bonds Payable

	Original Issue	Interest Rate	Issue Date	Final Maturity Date	Balance – End of Year
Governmental activities					
General obligation bonds					
Street Project Bonds of 2008	\$ 1,430,000	3.50–4.50%	07/17/2008	03/01/2024	\$ 830,000
Street Project Bonds of 2010	\$ 1,045,000	2.00–4.00%	07/15/2010	02/01/2026	770,000
Street Project and Refunding Bonds of 2012	\$ 7,135,000	1.00–3.00%	06/14/2012	02/01/2029	4,620,000
Street Project Bonds of 2014	\$ 1,940,000	3.00–3.50%	07/17/2014	02/01/2030	1,940,000
Street Project and Refunding Bonds of 2015	\$ 1,720,000	2.25–3.00%	07/16/2015	02/01/2026	1,720,000
Total governmental activity bonds payable					\$ 9,880,000
Business-type activities					
General obligation bonds					
Street Project Bonds of 2008	\$ 990,000	3.50–4.50%	07/17/2008	03/01/2024	\$ 670,000
Street Project Bonds of 2010	\$ 1,130,000	2.00–4.00%	07/15/2010	02/01/2026	880,000
Street Project Bonds of 2012	\$ 1,695,000	1.00–3.00%	06/14/2012	02/01/2028	1,495,000
Street Project Bonds of 2014	\$ 1,375,000	3.00–3.50%	07/17/2014	02/01/2030	1,375,000
Refunding Bonds of 2015	\$ 600,000	2.25–3.00%	07/16/2015	02/01/2026	600,000
Total general obligation bonds					5,020,000
Revenue bonds					
Refunding Gas Revenue Bonds of 2010	\$ 955,000	1.00–3.90%	06/30/2010	03/01/2020	505,000
Total business-type activity bonds payable					\$ 5,525,000

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire bonds payable are as follows:

Year Ending December 31,	Governmental Activities		Business-Type Activities			
	General Obligation Bonds		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 1,460,000	\$ 232,712	\$ 920,000	\$ 131,732	\$ 95,000	\$ 16,849
2017	885,000	199,170	320,000	110,353	95,000	13,643
2018	900,000	180,715	325,000	102,611	100,000	10,130
2019	910,000	161,175	325,000	94,550	105,000	6,285
2020	890,000	141,128	335,000	86,186	110,000	2,145
2021–2025	3,210,000	433,526	1,780,000	285,160	–	–
2026–2030	1,625,000	102,079	1,015,000	63,969	–	–
	<u>\$ 9,880,000</u>	<u>\$ 1,450,505</u>	<u>\$ 5,020,000</u>	<u>\$ 874,561</u>	<u>\$ 505,000</u>	<u>\$ 49,052</u>

D. Descriptions and Restrictions of Debt Issues

General Obligation Bonds – These bonds were issued to make acquisitions, improvements, or to refund prior bond issues. The Street Project Bonds of 2008, 2010, 2012, 2014, and 2015 (General Obligation Bonds) were split between governmental activities and business-type activities. Principal and interest on the governmental activities bonds are paid by the debt service funds primarily through the collection of taxes and special assessments. The general obligation bonds of the business-type activities will be repaid from the revenues of the enterprise funds.

Revenue Bonds – These bonds were issued to finance improvements made to the capital assets of the enterprise funds. Repayment of principal and interest will be made from the revenue collection of those funds. Net position of certain enterprise funds is restricted as required by applicable bond covenants.

On July 16, 2015, the City issued \$2,320,000 of General Obligation Improvement and Refunding Bonds (Series 2015A). The bonds were issued to finance new project costs and provide an advanced refunding of Street Project Bonds (Series 2008A).

With respect to the crossover refunding, the proceeds of the new bonds to be used to refund the Street Project Bonds (Series 2008A) were deposited in an escrow account pending the call date of March 1, 2016. This crossover refunding will reduce the City’s total future debt service payments by \$103,250, with a present value savings of \$93,441.

E. Ultimate Responsibility of Debt

All long-term debt is backed by the full faith and credit of the City, except for the Gas Utility Revenue Bonds, which are payable solely from the net revenues of the gas utilities.

F. Arbitrage Rebate

The Tax Reform Act of 1986 requires governmental entities to pay to the federal government income earned on the proceeds from the issuance of debt in excess of interest costs, pending the expenditure of the borrowed funds. This rebate of interest income (known as arbitrage) applies to governmental debt issued after August 31, 1986. In the opinion of management, any obligation would be immaterial.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

G. Revenue Pledged

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

Bond Issue	Use of Proceeds	Type	Revenue Pledged		Remaining Principal and Interest	Current Year	
			Percent of Total Debt Service	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
Street Project and Refunding Bonds of 2012 Tax Increment Refunding Bond Portion	Site improvements	Tax increment	100%	2012–2029	\$2,352,672	\$ 684,224	\$ 193,898
Street Project Bonds of 2008	Site improvements	Utility charges	100%	2008–2024	\$ 684,209	\$ 89,618	\$ 1,347,936
Street Project Bonds of 2010	Site improvements	Utility charges	100%	2010–2026	\$1,066,226	\$ 96,125	\$ 1,347,936
Street Project Bonds of 2012	Site improvements	Utility charges	100%	2012–2028	\$1,731,149	\$ 129,803	\$ 1,347,936
Street Project Bonds of 2014	Site improvements	Utility charges	100%	2014–2030	\$1,724,263	\$ 44,257	\$ 1,347,936
Refunding Bonds of 2015	Site improvements	Utility charges	100%	2015–2024	\$ 688,714	\$ –	\$ 1,347,936
Refunding Gas Revenue Bonds of 2010	Site improvements	Utility charges	100%	2010–2020	\$ 554,052	\$ 114,818	\$ 2,791,848

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivables and payables balances at year-end were as follows:

Fund	Interfund Receivables	Interfund Payables
Due to/from other funds		
Proprietary funds		
Circle Pines Gas Utility Enterprise Fund	\$ 436,293	\$ –
Blaine Gas Utility Enterprise Fund	–	436,293
Total proprietary funds	<u>\$ 436,293</u>	<u>\$ 436,293</u>
Advances to/from other funds		
Governmental funds		
Permanent Improvement Revolving Capital Project Fund	\$ 400,000	\$ –
Tax Increment District No. 1-4 North Special Revenue Fund	–	400,000
Total governmental funds	<u>400,000</u>	<u>400,000</u>
Proprietary funds		
Water Utility Enterprise Fund	450,000	–
Circle Pines Gas Utility Enterprise Fund	–	450,000
Total proprietary funds	<u>450,000</u>	<u>450,000</u>
Total all funds	<u>\$ 850,000</u>	<u>\$ 850,000</u>

The interfund balances were to assist in the development of the tax increment districts, to assist the 2014 Gas Line Replacement Project, and to eliminate negative cash balances. The advances from other funds are charged with interest at rates of 2 to 6 percent per year.

NOTE 6 – INTERFUND TRANSFERS

Interfund transfers for the 2015 fiscal year were as follows:

Transfers Out	Transfers In					Total
	Governmental					
	Tax Increment District No. 1-1 South Special Revenue Fund	Tax Increment Bonds Debt Service Fund	Street Project Capital Project Fund	Nonmajor Funds		
Governmental						
General	\$ -	\$ -	\$ 265,427	\$ -	\$ -	\$ 265,427
Major special revenue funds						
Tax Increment District No. 1-1 South	-	679,409	-	-	-	679,409
Tax Increment District No. 1-4 North	-	4,815	-	-	-	4,815
Major capital project fund						
Permanent Improvement Revolving	676,636	-	-	-	-	676,636
Street Project	-	-	-	19,390	-	19,390
Total	\$ 676,636	\$ 684,224	\$ 265,427	\$ 19,390	\$ -	\$ 1,645,677

Transfers are made in accordance with budget appropriations or as approved by the City Council for special funding of city activities.

NOTE 7 – FUND BALANCES

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

	General Fund	Tax Increment District No. 1-4 North	Capital Improvement Plan Bonds	Permanent Improvement Revolving	Street Project	Nonmajor	Totals
Nonspendable							
Prepaid items and supplies	\$ 6,921	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,921
Restricted							
Debt service	-	-	238,022	-	-	1,338,712	1,576,734
Street improvements	-	-	-	-	278,677	-	278,677
Park dedicated improvements	-	-	-	-	-	291,015	291,015
Tax increment	-	-	-	-	-	43,413	43,413
Total restricted	-	-	238,022	-	278,677	1,673,140	2,189,839
Assigned							
Cash flows	1,296,881	-	-	-	-	-	1,296,881
Employee benefits	44,929	-	-	-	-	-	44,929
Contingency	256,824	-	-	-	-	-	256,824
City signs	6,000	-	-	-	-	-	6,000
City celebration	5,968	-	-	-	-	-	5,968
City history books	4,400	-	-	-	-	-	4,400
Equipment acquisitions	563,661	-	-	-	-	88,359	652,020
Improvements	-	-	-	1,206,617	-	-	1,206,617
Park improvements	-	-	-	-	-	142,020	142,020
Street improvements	-	-	-	-	2,739,995	-	2,739,995
Capital improvements	-	-	-	-	-	871,642	871,642
Total assigned	2,178,663	-	-	1,206,617	2,739,995	1,102,021	7,227,296
Unassigned	837,786	(334,037)	-	-	-	-	503,749
Total	\$ 3,023,370	\$ (334,037)	\$ 238,022	\$ 1,206,617	\$ 3,018,672	\$ 2,775,161	\$ 9,927,805

NOTE 8 – INDIVIDUAL FUND DISCLOSURES

Deficit Fund Balances/Net Position

The following table summarizes the deficit fund balances/net position as of December 31, 2015:

Fund	Amount
Major funds	
Governmental funds	
Special revenue funds	
Tax Increment District No. 1-4 North	\$ (334,037)
Proprietary funds	
Enterprise fund	
Blaine Gas Utility	\$ (330,319)

The City intends to fund these deficits through future tax increments, utility charges, transfers from other funds, and various other sources.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Description

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

General Employees Retirement Fund (GERF)

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

B. Benefits Provided

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

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

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

GERF Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2015. The City was required to contribute 7.50 percent for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015 were \$79,238. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

GERF Pension Costs

At December 31, 2015, the City reported a liability of \$922,488 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of the PERA's participating employers. At June 30, 2015, the City's proportionate share was 0.0178 percent, which was a decrease of 0.0021 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$97,851 for its proportionate share of the GERF's pension expense.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ –	\$ 46,509
Differences between projected and actual investment earnings	87,328	–
Changes in proportion	–	73,985
Contributions paid to the PERA subsequent to the measurement date	39,340	–
	<u>39,340</u>	<u>–</u>
Total	<u>\$ 126,668</u>	<u>\$ 120,494</u>

Deferred outflows of resources reported \$39,340 related to pensions resulting from city contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2016	\$ (18,333)
2017	\$ (18,333)
2018	\$ (18,333)
2019	\$ 21,833

E. Actuarial Assumptions

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

Inflation	2.75% per year
Active member payroll growth	3.50% per year
Investment rate of return	7.90%

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

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

There were no changes in actuarial assumptions in 2015.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in the statute. Based on that assumption, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
The City’s proportionate share of the GERF net pension liability	\$ 1,450,480	\$ 922,488	\$ 486,449

H. Pension Plan Fiduciary Net Position

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

NOTE 10 – FLEXIBLE BENEFITS PLAN

The City maintains a flexible benefits plan (the Plan). The Plan is a “cafeteria plan” under § 125 of the Internal Revenue Code. All employee groups of the City are eligible to participate in the Plan. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependant care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. At December 31, the City is contingently liable for claims against the total amount of participants’ annual contributions to the healthcare part of the Plan, whether or not such contributions have been made.

An independent contractor serves as trustee and handles all plan record keeping. Employee contributions are included as personal services expenditures in the funds normally covering their payroll costs.

All property and income of the Plan attributable to that property is solely the property of the City, subject to the claims of the City’s general creditors. Participants’ rights under the Plan are equal to those of general creditors of the City in an amount equal to the eligible healthcare and dependent care expenses incurred by the participants. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 11 – JOINT POWERS AGREEMENTS

A. Southeast Anoka County Fire Protection District (Centennial Fire District)

The City is a member of a joint powers agreement, together with the cities of Lino Lakes and Centerville, which established the authority for the Centennial Fire District (the District). The District was created to provide fire protection services to the residents of the member cities. Each member city is entitled to appoint two members to the District’s Steering Committee. Each member city contributes funds to cover the budgeted costs of operations as determined by the Steering Committee. The amount of contributions required by each member is based on each city’s population, number of fire calls, and assessed valuations. Contributions made by member cities for 2015 were as follows:

City of Centerville	\$ 103,452	14.0 %
City of Circle Pines	127,099	17.2
City of Lino Lakes	508,394	68.8
	<u>\$ 738,945</u>	<u>100.0 %</u>

NOTE 11 – JOINT POWERS AGREEMENTS (CONTINUED)

B. Centennial Lakes Police Department

The City is a member of the Centennial Lakes Police Department (the Department), an entity created by a joint powers agreement, which provides police protection services to its member cities. The Department is managed through a three-tier system consisting of a Governing Board, an Operations Committee, and a Chief of Police. The Governing Board consists of six members—two elected officials appointed by each member city. The Operations Committee is made up of the city administrators from each member city and the Chief of Police. The Chief of Police is appointed by mutual agreement of the City Councils of all member cities. Annual contributions required by each member city are calculated based on complaint history, population, and staffing formulas. Contributions by the municipalities for 2015 were as follows:

City of Centerville	\$ 727,535	30.9 %
City of Circle Pines	912,624	38.8
City of Lexington	<u>711,396</u>	<u>30.3</u>
	<u>\$ 2,351,555</u>	<u>100.0 %</u>

C. Summary Financial Information of the Joint Powers Agreements Entities

The contribution to the joint fire district and the joint police department are reflected as expenditures in the City's General Fund. The District's and the Department's assets, deferred outflows of resources, liabilities, deferred inflows of resources, equity, and operations are excluded from the City's financial statements as further explained in Note 1B, Reporting Entity.

The following information is from the government-wide financial statements of the District and the Department as of December 31, 2015, the most recent audited information available at the time of this report. These financial statements are available for viewing at the Circle Pines City Hall.

	Centennial Fire District	Centennial Lakes Police Department
Total assets and deferred outflows	\$ 3,232,491	\$ 1,009,372
Total liabilities and deferred inflows	\$ 289,625	\$ 2,363,138
Total net position	\$ 2,942,866	\$ (1,353,766)
Total revenue	\$ 1,327,724	\$ 2,399,114
Total expenses	\$ 1,190,672	\$ 2,413,356

NOTE 12 – JOINT CONSTRUCTION OF POLICE DEPARTMENT FACILITIES

The cities of Circle Pines, Lexington, and Centerville have jointly financed the acquisition of land and the construction of a building to be used by the Department. The cities retain ownership of the facilities and, therefore, the City's share of the cost of the project is included in its governmental activities capital assets, and the bonds issued for financing the project are included in long-term liabilities. The City acted as the host of the project, issuing \$2,365,000 of debt, representing the entire projected financing requirements. The cities of Lexington and Centerville issued \$709,500 and \$827,750, respectively, of bonds to the City, representing their share of the project costs. The bonds from the cities of Lexington and Centerville represent a commitment of the cities to pay their portions of the debt and, therefore, are recorded as due from other governmental units in the City's Capital Improvement Plan Bonds of 2005 Debt Service Fund, rather than as investments. In the City's governmental fund financial statements, the revenue from these receivables are reported as deferred inflows of resources until collected.

NOTE 13 – CONTINGENCIES

A. State and Federal Receivables

Amounts recorded 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 claims which may be disallowed by the grantor 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. Tax Increment Districts

The City's tax increment districts are subject to review by the state of Minnesota 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 14 – FIRE DISTRICT MEMBERSHIP CHANGES

As previously discussed in Note 11, the City is part of a joint powers agreement with the cities of Centerville and Lino Lakes. The Lino Lakes City Council voted unanimously to withdraw from the Centennial Fire District at their January 2014 meeting. The City of Lino Lakes withdrew from the Fire District on January 29, 2016.

NOTE 15 – SUBSEQUENT EVENTS

On April 14, 2016, the City issued \$1,785,000 of General Obligation Capital Notes, Series 2016A with an interest rate of 2.00 percent with a final maturity date of February 1, 2026.

On April 14, 2016, the City issued \$3,320,000 of General Obligation Bonds, Series 2016B with interest rates ranging from 2.00 to 3.00 percent with a final maturity date of February 1, 2032.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CIRCLE PINES

Schedule of City's Proportionate Share of Net Pension Liability
 PERA – Public Employees General Employees Retirement Fund
 Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	6/30/2015	0.0178%	\$ 922,488	\$ 1,043,715	88.39%	78.20%

Schedule of City Contributions
 PERA – Public Employees General Employees Retirement Fund
 Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/2015	6/30/2015	\$ 79,238	\$ 79,238	\$ –	\$ 1,056,524	7.50%

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

SUPPLEMENTAL INFORMATION

CITY OF CIRCLE PINES

Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2015

	Debt Service Funds					
	G.O. Street Bonds of 2008/ Refunding 2015	G.O. Street Bonds of 2010	G.O. Street Bonds of 2012	G.O. Street Bonds of 2014	G.O. Street Bonds of 2015 Mill & Overlay	G.O. Street Bonds of 2015 Partial Reconstruction
Assets						
Cash and temporary investments	\$ 60,309	\$ 6,621	\$ 109,526	\$ 153,107	\$ 161,216	\$ 90,876
Cash and investments held by trustee	755,820	-	-	-	-	-
Receivables						
Accrued interest	165	18	-	417	415	222
Special assessments – delinquent	235	1,391	-	-	-	-
Special assessments – deferred	71,951	96,039	246,182	236,733	148,690	223,695
Due from other governmental units	-	-	-	-	-	-
Total assets	<u>\$ 888,480</u>	<u>\$ 104,069</u>	<u>\$ 355,708</u>	<u>\$ 390,257</u>	<u>\$ 310,321</u>	<u>\$ 314,793</u>
Liabilities						
Accounts and contracts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred inflows of resources						
Unavailable revenue – special assessments	72,186	97,430	246,182	236,733	148,690	223,695
Fund balances						
Restricted for debt service	816,294	6,639	109,526	153,524	161,631	91,098
Restricted for park dedicated improvements	-	-	-	-	-	-
Restricted for tax increment	-	-	-	-	-	-
Assigned for equipment acquisitions	-	-	-	-	-	-
Assigned for park improvements	-	-	-	-	-	-
Assigned for capital improvements	-	-	-	-	-	-
Total fund balances	<u>816,294</u>	<u>6,639</u>	<u>109,526</u>	<u>153,524</u>	<u>161,631</u>	<u>91,098</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 888,480</u>	<u>\$ 104,069</u>	<u>\$ 355,708</u>	<u>\$ 390,257</u>	<u>\$ 310,321</u>	<u>\$ 314,793</u>

Capital Project Funds

Equipment Acquisition	Capital Improvements	Parks Improvements	Park Dedicated Improvements	Tax Increment District No. 3	Total
\$ 88,359	\$ 869,272	\$ 141,634	\$ 290,224	\$ 43,766	\$ 2,014,910
-	-	-	-	-	755,820
-	2,370	386	791	120	4,904
-	-	-	-	-	1,626
-	-	-	-	-	1,023,290
-	-	-	-	14	14
<u>\$ 88,359</u>	<u>\$ 871,642</u>	<u>\$ 142,020</u>	<u>\$ 291,015</u>	<u>\$ 43,900</u>	<u>\$ 3,800,564</u>
\$ -	\$ -	\$ -	\$ -	\$ 487	\$ 487
-	-	-	-	-	1,024,916
-	-	-	-	-	1,338,712
-	-	-	291,015	-	291,015
-	-	-	-	43,413	43,413
88,359	-	-	-	-	88,359
-	-	142,020	-	-	142,020
-	871,642	-	-	-	871,642
<u>88,359</u>	<u>871,642</u>	<u>142,020</u>	<u>291,015</u>	<u>43,413</u>	<u>2,775,161</u>
<u>\$ 88,359</u>	<u>\$ 871,642</u>	<u>\$ 142,020</u>	<u>\$ 291,015</u>	<u>\$ 43,900</u>	<u>\$ 3,800,564</u>

CITY OF CIRCLE PINES

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

	Debt Service Funds					G.O. Street Bonds of 2015 Partial Reconstruction
	G.O. Street Bonds of 2008/ Refunding 2015	G.O. Street Bonds of 2010	G.O. Street Bonds of 2012	G.O. Street Bonds of 2014	G.O. Street Bonds of 2015 Mill & Overlay	
Revenue						
Property taxes	\$ -	\$ 71,807	\$ 100,799	\$ 27,394	\$ -	\$ -
Special assessments	28,794	31,190	77,913	64,616	151,185	80,987
Intergovernmental revenue	89,195	-	-	-	-	-
Other revenue						
Investment earnings	404	18	-	1,408	751	416
Lease and rental	-	-	-	-	-	-
Miscellaneous	-	-	-	1,586	-	-
Total revenue	<u>118,393</u>	<u>103,015</u>	<u>178,712</u>	<u>95,004</u>	<u>151,936</u>	<u>81,403</u>
Expenditures						
Current						
General government	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service						
Principal retirement	100,000	70,000	125,000	-	-	-
Interest and other	37,524	27,420	29,796	63,088	-	-
Total expenditures	<u>137,524</u>	<u>97,420</u>	<u>154,796</u>	<u>63,088</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue over expenditures	(19,131)	5,595	23,916	31,916	151,936	81,403
Other financing sources						
Bonds issued	725,000	-	-	-	-	-
Premium on bonds issued	30,820	-	-	-	-	-
Transfers in	-	-	-	-	9,695	9,695
Total other financing sources	<u>755,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,695</u>	<u>9,695</u>
Net change in fund balances	736,689	5,595	23,916	31,916	161,631	91,098
Fund balances						
Beginning of year	<u>79,605</u>	<u>1,044</u>	<u>85,610</u>	<u>121,608</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 816,294</u>	<u>\$ 6,639</u>	<u>\$ 109,526</u>	<u>\$ 153,524</u>	<u>\$ 161,631</u>	<u>\$ 91,098</u>

Capital Project Funds

Equipment Acquisition	Capital Improvements	Parks Improvements	Park Dedicated Improvements	Tax Increment District No. 3	Total
\$ -	\$ -	\$ -	\$ -	\$ 40,507	\$ 240,507
-	-	-	-	-	434,685
-	-	-	-	-	89,195
240	10,369	1,498	3,462	262	18,828
96,636	-	22,772	-	-	119,408
16,628	-	-	-	-	18,214
<u>113,504</u>	<u>10,369</u>	<u>24,270</u>	<u>3,462</u>	<u>40,769</u>	<u>920,837</u>
-	-	-	-	16,344	16,344
171,558	-	-	-	-	171,558
-	-	-	-	-	295,000
-	-	-	-	-	157,828
<u>171,558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,344</u>	<u>640,730</u>
(58,054)	10,369	24,270	3,462	24,425	280,107
-	-	-	-	-	725,000
-	-	-	-	-	30,820
-	-	-	-	-	19,390
-	-	-	-	-	<u>775,210</u>
(58,054)	10,369	24,270	3,462	24,425	1,055,317
<u>146,413</u>	<u>861,273</u>	<u>117,750</u>	<u>287,553</u>	<u>18,988</u>	<u>1,719,844</u>
<u>\$ 88,359</u>	<u>\$ 871,642</u>	<u>\$ 142,020</u>	<u>\$ 291,015</u>	<u>\$ 43,413</u>	<u>\$ 2,775,161</u>

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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

To the City Council and Management
City of Circle Pines, 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 basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Circle Pines, Minnesota (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 7, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2015-001 and 2015-002, that we consider to be material weaknesses.

(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*.

CITY'S RESPONSES TO FINDINGS

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

PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota
July 7, 2016

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the City Council and Management
City of Circle Pines, 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 Circle Pines, Minnesota (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 7, 2016.

MINNESOTA LEGAL COMPLIANCE

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Responses as item 2015-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

CITY'S RESPONSE TO FINDING

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

PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota
July 7, 2016

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CITY OF CIRCLE PINES

Schedule of Findings and Responses
Year Ended December 31, 2015

A. FINDINGS – MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2015-001 INADEQUATE SEGREGATION OF DUTIES

Criteria – Internal control over financial reporting.

Condition – The City of Circle Pines, Minnesota (the City) has limited segregation of duties in a number of areas, including controls over investments, utility billing, journal entry approval, and payroll.

Context – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the City's finance department staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no one individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Recommendation – We recommend that the City continue to review its accounting procedures and internal controls and make improvements on an ongoing basis within the limits of the staff available.

Management Response – There is no disagreement with the audit finding. The City reviews and makes improvements to its internal control structure on an ongoing basis and attempts to maximize the segregation of duties in all areas within the limits of the staff available. However, the City does not consider it cost beneficial at this time to increase the size of its staff in order to further segregate accounting functions.

2015-002 TIMELY PREPARATION OF BANK RECONCILIATIONS

Criteria – Internal control over financial reporting.

Condition – Management is responsible for establishing and maintaining effective internal control over financial reporting. One of the key purposes of internal controls is to ensure the accuracy of financial data needed for the fair presentation in the financial statements of the City's financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. During the course of the audit, it was noted that the City was not reconciling the bank statements in a timely manner.

Context – This is a current year and prior year finding.

Cause – The City did not have controls in place to ensure timely reconciliation of bank statements.

CITY OF CIRCLE PINES

Schedule of Findings and Responses (continued)
Year Ended December 31, 2015

A. FINDINGS – MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

2015-002 TIMELY PREPARATION OF BANK RECONCILIATIONS (CONTINUED)

Effect – A lack of sufficient controls subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Recommendation – We recommend that the City review procedures over the bank reconciliation process to ensure that a timely reconciliation of department financial activity to bank statement activity is completed. This process is critical in identifying errors or misstatements on a timely basis.

Management Response – There is no disagreement with the audit finding. City staff will review controls and implement procedures to eliminate this condition in the future.

B. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2015-003 RESPONSIBLE CONTRACTOR LANGUAGE

Criteria – Minnesota Statute § 16C.285.

Condition – Minnesota Statutes require the City to include responsible contractor language for each construction contract in excess of \$50,000, awarded pursuant to a lowest responsible bidder or best value process. The successful contractor must submit a verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minnesota Statute § 16C.285.

Context – One of two bids tested was not in compliance with this statute. This is a current year finding.

Cause – This was an oversight by city personnel.

Effect – One bid approved in 2015 was not in compliance with this statute for responsible contractor requirements.

Recommendation – We recommend that the City review applicable statutes and bid procedures to ensure future compliance.

Management Response – There is no disagreement with the audit finding. The City will review its procedures to ensure that certificates are obtained in the future.