

City of Wahkon
Wahkon, Minnesota
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
December 31, 2015

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

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City of Wahkon
Wahkon, Minnesota
PRINCIPAL CITY OFFICIALS
December 31, 2015

ELECTED OFFICIALS

		<u>Term Expires</u>
Mayor	Sandy Reichel	12/31/2016
Council Member	Christine Bjornson	12/31/2018
Council Member	Anthony Button	12/31/2016
Council Member	Amy Goplen	12/31/2018
Council Member	Ronda Bjornson-Main	12/31/2016

APPOINTED OFFICIALS

Clerk/Treasurer	Karrie Roeschlein
Attorney	Kennedy & Graven Chartered
Auditor	Althoff & Nordquist LLC

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

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Althoff and Nordquist, LLC

CERTIFIED PUBLIC ACCOUNTANTS
www.althoffandnordquist.com

505 - SECOND STREET SE
PINE CITY, MINNESOTA 55063
TELEPHONE: 320-629-6185

124 EAST FOREST
MORA, MINNESOTA 55051
TELEPHONE: 320-679-4846

CARL D. NORDQUIST, JR., C.P.A.
ROBERT R. ALTHOFF, C.P.A.

INDEPENDENT AUDITOR'S REPORT

MEMBERS
AMERICAN INSTITUTE OF C.P.A.'S
MINNESOTA SOCIETY OF C.P.A.'S

Honorable Mayor and
Members of the City Council
City of Wahkon
Wahkon, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risk 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.



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Basis for Qualified Opinion

As more fully described in Note 1, the City of Wahkon has prepared these financial statements using accounting practices prescribed or permitted by the Office of the State Auditor of the State of Minnesota, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variance between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

Qualified Opinion

In our opinion, except for the effects of the accounting basis used as described in the Basis for Qualified Opinion paragraph, the financial statements of the City of Wahkon present fairly, in all material respects, the respective position of the City of Wahkon, as of December 31, 2015, and its changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, cash fund balances, receipts and disbursements of the governmental funds and discretely presented component unit and assets, liabilities, net assets, revenues, expenses, and cash flows of the proprietary funds of the City of Wahkon, Minnesota, as of and for the year ended December 31, 2015 on the basis of accounting described in Note 1.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The combining and individual fund financial statements, as listed in the table of contents, are presented for additional analysis, and are not a required part of the regulatory basis financial statements of the City. Such information had been subjected to the auditing procedures applied in the regulatory basis financial statements and in our opinion, is presented fairly in all material respects, in relation to the regulatory basis financial statements and in our opinion, is presented fairly in all material respects, in relation to the regulatory basis financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis because these items are required to be reported to the Office of the State Auditor of the State of Minnesota. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.



Althoff & Nordquist LLC
Pine City, Minnesota
March 3, 2016

City of Wahkon
Wahkon, Minnesota
GOVERNMENTAL FUNDS
Statement of Balances Arising from Cash Transactions
December 31, 2015
(With Comparative Totals for December 31, 2014)

	General Fund	
	2015	2014
ASSETS	\$ 358,259	\$ 262,604
Cash and cash equivalents	\$ 358,259	\$ 262,604
Total Assets		
 LIABILITIES AND CASH FUND BALANCES		
Liabilities	\$ --	\$ --
 Cash Fund Balances:		
Unreserved, reported in general	358,259	262,604
Total Cash Fund Balances	358,259	262,604
 Total Liabilities and Cash Fund Balances	\$ 358,259	\$ 262,604

See Accompanying Notes to Financial Statements.

City of Wahkon
Wahkon, Minnesota
GOVERNMENTAL FUNDS
Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances
For the Year Ended December 31, 2015
(With Comparative Amounts at December 31, 2014)

	General Fund	
	2015	2014
RECEIPTS		
Property taxes	\$ 252,600	\$ 231,937
Licenses and permits	5,166	6,471
Intergovernmental	21,226	164
Charges for services	8,719	7,672
Fines and forfeits	392	52
Investment earnings	250	239
Contributions and donations	19,018	22,088
Miscellaneous	20,272	23,182
Total Receipts	<u>327,643</u>	<u>291,805</u>
DISBURSEMENTS		
Current:		
General government	118,661	123,119
Public safety	14,606	9,375
Streets and highways	53,694	118,836
Culture and recreation	55,027	64,059
Capital outlay	--	--
Total Disbursements	<u>241,988</u>	<u>315,389</u>
Excess of Receipts over (under) Disbursements	85,655	(23,584)
Other Financing Sources (Uses);		
Bond payment	--	(65,000)
Interest payment	--	(70,332)
Transfers in	10,000	145,332
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>10,000</u>
Net Changes in Cash Fund Balances	95,655	(13,584)
Fund Balances, Beginning	<u>262,604</u>	<u>276,188</u>
Fund Balances, Ending	<u>\$ 358,259</u>	<u>\$ 262,604</u>

See Accompanying Notes to Financial Statements.

City of Wahkon
Wahkon, Minnesota
PROPRIETARY FUND
Statement of Balances Arising from Cash Transactions
December 31, 2015
(With Comparative Amounts at December 31, 2014)

	Business Type Activities	
	Enterprise Fund	
	2015	2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 339,826	\$ 342,817
Investments	--	--
Total Assets	\$ 339,826	\$ 342,817
 LIABILITIES AND NET ASSETS		
Liabilities	\$ --	\$ --
Net Assets:		
Unrestricted	339,826	342,817
Total Net Assets	339,826	342,817
Total Liabilities and Net Assets	\$ 339,826	\$ 342,817

See Accompanying Notes to Financial Statements.

City of Wahkon
Wahkon, Minnesota
PROPRIETARY FUND
Statement of Receipts, Disbursements, and Changes in Net Cash Assets
For the Year Ended December 31, 2015
(With Comparative Totals at December 31, 2014)

	<u>Business Type Activities</u>	
	<u>Enterprise Fund</u>	
	<u>2015</u>	<u>2014</u>
OPERATING RECEIPTS		
Charges for services	\$ 206,521	\$ 196,173
Total Operating Receipts	<u>206,521</u>	<u>196,173</u>
OPERATING DISBURSEMENTS		
Personal services	18,633	19,785
Contractual services	42,406	26,585
Utilities	6,020	7,243
Repairs and maintenance	35,928	25,230
Supplies	7,225	17,202
Insurance	10,115	10,665
Total Operating Disbursements	<u>120,327</u>	<u>106,710</u>
Operating Income (Loss)	86,194	89,463
NONOPERATING RECEIPTS (DISBURSEMENTS)		
Special assessments	27,914	23,141
Refunds/reimbursements	1,127	2,461
Bond payments	(65,000)	--
Interest payments	(43,778)	--
Interest and investment receipts	552	607
Total Nonoperating Receipts (Disbursements)	<u>(79,185)</u>	<u>26,209</u>
Income (Loss) before Contributions and Transfers	7,009	115,672
Transfers In (Out)	<u>(10,000)</u>	<u>(145,332)</u>
Changes in Net Assets	(2,991)	(29,660)
Total Net Cash Assets, Beginning	<u>342,817</u>	<u>372,477</u>
Total Net Cash Assets, Ending	<u>\$ 339,826</u>	<u>\$ 342,817</u>

See Accompanying Notes to Financial Statements.

City of Wahkon
Wahkon, Minnesota
PROPRIETARY FUND
Statement of Cash Flows
Cash Basis

For the Year Ended December 31, 2015
(With Comparative Totals at December 31, 2014)

	Business Type Activities	
	Enterprise Fund	
	2015	2014
Cash Flows from Operating Activities:		
Receipts from customers	\$ 206,521	\$ 196,173
Payments to suppliers	(101,694)	(86,925)
Payments to employees	(18,633)	(19,785)
Net Cash Provided (Used) by Operating Activities	86,194	89,463
Cash Flows from Noncapital Financing Activities:		
Transfers to other funds	(10,000)	(145,332)
Net Cash Provided by (Used in) Noncapital Financing Activities	(10,000)	(145,332)
Cash Flows from Capital and Related Financing Activities:		
Receipts from special assessments	27,914	23,141
Receipts from reimbursements	1,127	2,461
Interest paid on capital debt	(43,778)	--
Bond payments	(65,000)	--
Purchase of capital assets	--	--
Net Cash Provided by (Used in) Capital and Related Financing Activities	(79,737)	25,602
Cash Flows from Investing Activities		
Interest and dividends	552	607
Net Cash Provided by (Used in) Investing Activities	552	607
Net Increase (Decrease) in Cash and Cash Equivalents	(2,991)	(29,660)
Balances, Beginning of Year	342,817	372,477
Balances, End of Year	\$ 339,826	\$ 342,817

See Accompanying Notes to Financial Statements.

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City was incorporated under the laws of the State of Minnesota and operates under an elected mayor-council form of government. The financial statements of the reporting entity include those of the City (primary government) and the component units for which the primary government is financially accountable. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, 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 dependent upon the potential component unit. Based on these criteria, there are no organizations considered to be component units of the City.

B. Basis of Presentation - Fund Accounting

The accounting system of the City is organized on a fund basis. Each fund is considered a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which such resources are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two broad fund type categories: *governmental* and *proprietary fund types*. The City reports the following major funds:

1. Governmental Fund

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.

2. Proprietary Fund

Enterprise Fund. The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement of Focus and Basis of Accounting

The City follows the cash basis of accounting for all funds. The statements of balances arising from cash transactions and statements of cash receipts, disbursements, and changes in cash fund balances were prepared on the cash basis and accordingly, revenues and expenditures are recognized only as cash is received or paid out. These statements do not give effect to receivables, payables, accrued expenses, and inventory, and accordingly, are not presented in accordance with United States generally accepted accounting principles. These procedures are in accordance with City Audited Financial Statements for Cities Under 2,500 in Population Reporting on the Regulatory Basis of Accounting as required by the Office of the State Auditor, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The City does not maintain a capital asset inventory for its proprietary fund. Therefore, the statement of net assets and revenues, expenses, and changes in net assets are not presented.

D. Assets, Liabilities, and Net Cash

1. Cash, Cash Equivalents, and Investments

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. All investments are recorded at cost.

2. Cash Fund Balance

In the statement of balances arising from cash transactions, governmental funds report reservations of fund balance for amounts that are not applicable for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Receipts and Disbursements

1. Receipts

Property Tax Revenue

The City levies its property taxes for the subsequent year during the month of December. Mille Lacs County is the collecting agency for the levy and then remits the collections to the City. The City receives its taxes in two installments in July and December.

The property tax levy in 2015 includes certain state credits that are distributed to the City directly by the state. These credits are classified as intergovernmental revenue.

2. Disbursements

The City disburses funds approved by the City's council.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Estimates

The preparation of financial statements in accordance with regulatory cash basis requires management to make estimates that affect amounts reported in the financial statements during the period. Actual results could differ from such estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

At December 31, 2015, there were no compliance issues to be noted.

NOTE 3: DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS

Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the financial statements as "cash and investments". Interest is allocated based on management estimate of interest earned by fund. In accordance with Minnesota statutes the City maintains deposits at financial institutions which are authorized by the City council.

A. Deposits

The City is authorized by Minnesota statutes 118A.02 and 118A.04 to designate to depository for public funds and to invest in certificates of deposit. The City is required by Minnesota statutes of collateral pledged shall be at least ten percent more than the amount of deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of United States government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby 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 not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. It is the City's policy that collateral or bonds will be required for all uninsured amounts on deposit, and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. As of December 31, 2015, the City's deposits were not exposed to custodial credit risk.

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

NOTE 3: DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS (Continued)

Deposits and Investments (Continued)

B. Investments

The City has an investment policy and is permitted to invest its idle funds as authorized by Minnesota statutes 118A.04 and 118A.05 as follows:

- * Governmental bonds, notes, bills, mortgages, and other securities, which were direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or
- * General obligations of a state or local government with taxing powers which was rated "A" or better by a national bond rating service;
- * Revenue obligations of a state or local government with taxing powers which was rated "AA" or better by a national bond rating service;
- * General obligations of the Minnesota Housing Finance Agency which was a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating service;
- * Commercial papers issued by the United States corporation or its Canadian subsidiaries and that was rated in the highest quality category by at least two nationally recognized rating agencies,
- * Bankers acceptances issued by United States banks;
- * its own temporary obligations issued under Minnesota statutes 429.091 , subd. 7 (special assessments), 469.178 subd. 5 (tax increment bonds), or 475.61, subd. 6.

Interest Rate Risk

The risk is that changes in interest rates could adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations.

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

NOTE 3: DETAILED NOTES - TRANSACTION CLASSES/ACCOUNTS (Continued)

Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in securities that meet the ratings requirements set by statute.

Custodial Credit Risk

For an investment, custodial credit risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer. The City places no limit on the amount that it may invest in any one issuer.

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Concentration</u>	<u>Interest</u>	<u>Carrying</u>
	<u>Credit</u>	<u>Rating</u>	<u>Risk</u>	<u>Rate Risk</u>	
	<u>Agency</u>	<u>Agency</u>	<u>Over 5%</u>	<u>Maturity</u>	<u>(Fair)</u>
			<u>of Portfolio</u>	<u>Date</u>	<u>Value</u>
First National Bank of Milaca - Certificate of Deposit	N/A	N/A	N/A	N/A	\$ --
Total Investments					--
Deposits					698,085
Total Cash and Investments					<u>\$ 698,085</u>

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

NOTE 4: LONG-TERM DEBT

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

<u>Bonded Indebtedness</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Outstanding January 1</u>	<u>Issued</u>	<u>Paid In</u>	<u>Outstanding December 31</u>
General obligation sewer revenue bonds, series 2005A	3.1-5%	6/1/2005	2/1/2026	\$ 1,045,000	\$ --	\$ 1,045,000	\$ --
G.O. Refunding note Series 2013A	2.35%	9/1/2013	2/1/206	<u>835,000</u>	<u>--</u>	<u>--</u>	<u>835,000</u>
				<u>\$ 1,880,000</u>	<u>\$ --</u>	<u>\$ 1,045,000</u>	<u>\$ 835,000</u>
					<u>Due Within One Year</u>		
					<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General obligation sewer revenue bonds, series 2013A					<u>\$ 65,000</u>	<u>\$ 18,859</u>	<u>\$ 83,859</u>

The annual debt service requirements to maturity for long-term debt as of December 31, 2015, are as follows:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 65,000	\$ 18,859	\$ 83,859
2017	70,000	17,273	87,273
2018	70,000	15,628	85,628
2019	70,000	13,983	83,983
2020	75,000	12,279	87,279
2021-2025	400,000	33,962	433,962
2026	<u>85,000</u>	<u>999</u>	<u>85,999</u>
Totals	<u>\$ 835,000</u>	<u>\$ 112,983</u>	<u>\$ 947,983</u>

NOTE 5: OTHER NOTES

A. Defined Benefit Pension Plan -Statewide

1. Plan Description

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

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

NOTE 5: OTHER NOTES (Continued)

A. Defined Benefit Pension Plan - Statewide(Continued)

Benefits Provide

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefit increase are provided to benefit recipients each January. Increase are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are 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.

GERF Benefits

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

2. 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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City of Wahkon was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City of Wahkon's contributions to the GERF for the year ended December 31, 2015, were \$7,677. The City of Wahkon's contributions were equal to the required contributions as set by state statute.

3. Pensions Costs

At December 31, 2015, the City of Wahkon reported a liability of \$93,285 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 of Wahkon's proportion of the net pension liability was based on the City of Wahkon's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City of Wahkon's proportion share was 0.0018% which was an increase/decrease of 0.0020% from its proportion measured as of June 30, 2014.

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

NOTE 5: OTHER NOTES (Continued)

A. Defined Benefit Pension Plan - Statewide(Continued)

3. **Pension Costs (continued)**

For the year ended December 31, 2015, the City of Wahkon recognized pension expense of \$10,086 for its proportionate share of the GERP's pension expense.

At December 31, 2015, the City of Wahkon reported its proportionate share of the GERP'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	--	4,703
Changes in actuarial assumptions	--	--
Difference between projected and actual investments earnings	8,831	--
Contribution paid to PERA subsequent to the measurement date	--	7,046
Total	\$ 8,831	\$ 11,749

\$8,831 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	2,263
2017	2,263
2018	2,263
2019	2,648
2020	--
Thereafter	--

4. **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% effective every January 1st until 2034, then 2.5% for GERP.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009. Experience studies have not been prepared for the PECF, but assumptions are reviewed annually.

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

NOTE 5: OTHER NOTES (Continued)
A. Defined Benefit Pension Plan - Statewide (Continued)

4. **Actuarial Assumptions (continued)**

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method 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%

5. **Discount Rate**

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

6. **Pension Liability Sensitivity**

The following presents the City of Wahkon's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City of Wahkon'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:

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

NOTE 5: OTHER NOTES (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

6. **Pension Liability Sensitivity (Continued)**

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERS net pension liability:	\$146,678	\$93,285	\$49,191

7. **Pension Plan Fiduciary Net Position**

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

B. Defined Contribution Plan

One City employee is covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401 (a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

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

NOTE 5: OTHER NOTES (Continued)

B. Defined Contribution Plan (Continued)

1. Plan Description (Continued)

Total contributions made by the City were:

Year	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employees	Employer	
2015	\$ 165	\$ 165	<u>5%</u>	<u>5%</u>	<u>5%</u>
2014	165	165			
2013	165	165			
2012	125	125			
2011	221	221			

C. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The agreement for the formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City has determined that is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements taken as a whole.

D. Significant Effects of Subsequent Events

Subsequent events have been evaluated through March 3, 2016, the date the financial statements were issued.

City of Wahkon
Wahkon, Minnesota
COMBINING AND INDIVIDUAL FUND SECTION
December 31, 2015

City of Wahkon
Wahkon, Minnesota
GENERAL FUND
Budgetary Comparison Schedule
Cash Basis
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
General Property Taxes	\$ 245,651	\$ 245,651	\$ 252,600	\$ 6,949
Licenses and Permits:				
Business	4,480	4,480	4,481	1
Non-business	2,000	2,000	685	(1,315)
Total Licenses and Permits	6,480	6,480	5,166	(1,314)
Intergovernmental:				
State grants -				
Market value credit	--	--	--	--
Other	164	164	21,226	21,062
Total Intergovernmental	164	164	21,226	21,062
Charges for Services:				
General government	3,900	3,900	8,719	4,819
Total Charges for Services	3,900	3,900	8,719	4,819
Fines and Forfeits:				
County court	--	--	392	392
Total Fines and Forfeits	--	--	392	392
Miscellaneous:				
Investment earnings	150	150	250	100
Donations	500	500	19,018	18,518
Franchise fees	2,000	2,000	2,283	283
Other	75	75	12,727	12,652
Refunds received	500	500	5,262	4,762
Total Miscellaneous	3,225	3,225	39,540	36,315
Total Receipts	259,420	259,420	327,643	68,223

City of Wahkon
Wahkon, Minnesota
GENERAL FUND
Budgetary Comparison Schedule
Cash Basis
For the Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
DISBURSEMENTS				
General Government:				
Mayor and council	\$ 7,000	\$ 7,000	\$ 5,814	\$ 1,186
Elections	--	--	331	(331)
Finance municipal clerk/treasurer	71,500	71,500	62,711	8,789
Independent accounting and auditing	9,000	9,000	8,337	663
Legal	3,000	3,000	5,177	(2,177)
Planning and zoning	11,350	11,350	6,255	5,095
City hall/general government bldgs	<u>30,710</u>	<u>30,710</u>	<u>30,036</u>	<u>674</u>
Total General Government	<u>132,560</u>	<u>132,560</u>	<u>118,661</u>	<u>13,899</u>
Public Safety:				
Fire protection	<u>9,375</u>	<u>9,375</u>	<u>14,606</u>	<u>(5,231)</u>
Total Public Safety	<u>9,375</u>	<u>9,375</u>	<u>14,606</u>	<u>(5,231)</u>
Streets and Highways:				
Street maintenance and storm sewers	94,700	94,700	39,662	55,038
Capital outlay	--	--	--	--
Snow and ice removal	17,700	17,700	6,949	10,751
Street lighting	<u>7,000</u>	<u>7,000</u>	<u>7,083</u>	<u>(83)</u>
Total Streets and Highways	<u>119,400</u>	<u>119,400</u>	<u>53,694</u>	<u>65,706</u>
Culture and Recreation:				
Community events	16,700	16,700	37,499	(20,799)
Parks	<u>5,500</u>	<u>5,500</u>	<u>17,528</u>	<u>(12,028)</u>
Total Culture and Recreation	<u>22,200</u>	<u>22,200</u>	<u>55,027</u>	<u>(32,827)</u>
Total Disbursements	<u>283,535</u>	<u>283,535</u>	<u>241,988</u>	<u>41,547</u>
Other Financing Sources (Uses):				
Transfers from	10,000	10,000	10,000	--
Bond paymentt	--	--	--	--
Agent fee	--	--	--	--
Interest payment	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>--</u>
Net Income (Loss)	(14,115)	(14,115)	95,655	109,770
Fund Balances, Beginning	<u>262,604</u>	<u>262,604</u>	<u>262,604</u>	<u>--</u>
Fund Balances, Ending	<u>\$ 248,489</u>	<u>\$ 248,489</u>	<u>\$ 358,259</u>	<u>\$ 109,770</u>

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City of Wahkon
Wahkon, Minnesota
SUPPLEMENTAL INFORMATION
December 31, 2015

City of Wahkon
Wahkon, Minnesota
SCHEDULE OF INDEBTEDNESS
December 31, 2015

Bonded <u>Indebtedness</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Outstanding January 1</u>	<u>Issued</u>	<u>Paid</u>	<u>Outstanding December 31</u>
General obligation sewer revenue bonds, series 2005A	3.1-5%	6/1/2005	2/1/2026	\$ 1,110,000	\$ --	\$ 1,045,000	\$ --
General obligation refunding note series 2013A	2.35%	9/1/2013	2/1/2026	<u>835,000</u>	<u>--</u>	<u>--</u>	<u>835,000</u>
				<u>\$ 1,945,000</u>	<u>\$ --</u>	<u>\$ 1,045,000</u>	<u>\$ 835,000</u>

City of Wahkon
Wahkon, Minnesota
SCHEDULE OF ACCOUNTS RECEIVABLE
December 31, 2015

<u>Fund</u>	<u>Source of Revenue and Purpose</u>	<u>Amount</u>
Sewer	Usage Fees	\$ 35,244
Totals		<u>\$ 35,244</u>

SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES
December 31, 2015

<u>Fund</u>	<u>Vendor Name</u>	<u>Item and Purpose</u>	<u>Claim Number</u>	<u>Amount</u>
General	Ameripride	Uniforms		\$ 131
Sewer	AW Research	Pond Testing		66
General	Cemstone	Salt Sand		268
General	Frontier	Phone		74
Sewer	Gopher State	Locates		1
General	Isle HH	R/M Supplies		82
General	MCSI	Copier		117
Sewer	Pace Analytical	Pond Testing		124
Sewer	Pace Analytical	Pond Testing		124
Sewer	Pace Analytical	Pond Testing		114
General	O'Neil, Holly	Website		75
General	Quill	Office Supplies		213
General	Quill	Office Supplies		4
General	Mille Lacs Messenger	Holiday Gift Guide		159
General	ECE	Electric		796
Sewer	ECE	Electric		447
General	Federated Coop	Diesel		68
General	MSM	Fuel		80
Sewer	MSM	Fuel		80
General	FNB/Harland	Deposit Slips		20
Sewer	FNB/Harland	Deposit Slips		35
Totals				<u>\$ 3,078</u>

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City of Wahkon
Wahkon, Minnesota
OTHER REPORTS
December 31, 2015

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Althoff and Nordquist, LLC

CERTIFIED PUBLIC ACCOUNTANTS
www.althoffandnordquist.com

505 - SECOND STREET SE
PINE CITY, MINNESOTA 55063
TELEPHONE: 320-629-6185

124 EAST FOREST
MORA, MINNESOTA 55051
TELEPHONE: 320-679-4846

CARL D. NORDQUIST, JR., C.P.A.
ROBERT R. ALTHOFF, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF C.P.A.'S
MINNESOTA SOCIETY OF C.P.A.'S

AUDITOR'S REPORT ON LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of Wahkon
Wahkon, Minnesota

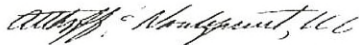
We have audited the financial statements of the City of Wahkon as of and for the year ended December 31, 2015, and have issued our report thereon dated March 3, 2016. In our report, our opinion was qualified because the City prepares its financial statements in accordance with *City Audited Financial Statements for Cities under 2,500 in Population Reporting on the Regulatory Basis of Accounting* as required by the Office of the State Auditor, which is a comprehensive basis of accounting other than United States generally accepted accounting principles.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota statutes 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions, and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the City and is not intended to be and should not be used by anyone other than the specified party.



Althoff & Nordquist LLC
Pine City, Minnesota
March 3, 2016



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