

City of Wahkon  
Wahkon, Minnesota  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
December 31, 2017

City of Wahkon  
Wahkon, Minnesota  
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City of Wahkon  
Wahkon, Minnesota  
INTRODUCTORY SECTION  
December 31, 2017

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City of Wahkon  
Wahkon, Minnesota  
PRINCIPAL CITY OFFICIALS  
December 31, 2017

ELECTED OFFICIALS

		<u>Term Expires</u>
Mayor	Sandy Reichel	12/31/2018
Council Member	Christine Bjornson	12/31/2018
Council Member	Anthony Button	12/31/2020
Council Member	Kim Tyson	12/31/2020
Council Member	Ronda Bjornson-Main	12/31/2018

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, 2017

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MEMBERS  
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## INDEPENDENT AUDITOR'S REPORT

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, each major fund, and the aggregate remaining fund information of the City of Wahkon, Minnesota, as of and for the year ended December 31, 2017, 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

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, 2017, 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, 2017 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 20, 2018, 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 20, 2018

City of Wahkon  
Wahkon, Minnesota  
GOVERNMENTAL FUNDS  
Statement of Balances Arising from Cash Transactions  
December 31, 2017  
*(With Comparative Totals for December 31, 2016)*

	General Fund	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 373,367	\$ 317,871
Total Assets	\$ 373,367	\$ 317,871
LIABILITIES AND CASH FUND BALANCES		
Liabilities	\$ --	\$ --
Cash Fund Balances:		
Unreserved, reported in general	373,367	317,871
Total Cash Fund Balances	373,367	317,871
Total Liabilities and Cash Fund Balances	\$ 373,367	\$ 317,871

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, 2017  
(With Comparative Amounts at December 31, 2016)

	General Fund	
	2017	2016
<b>RECEIPTS</b>		
Property taxes	\$ 246,943	\$ 237,310
Licenses and permits	9,756	5,356
Intergovernmental	8,310	164
Charges for services	1,547	3,267
Fines and forfeits	3,188	3,111
Investment earnings	304	323
Contributions and donations	19,593	18,618
Miscellaneous	15,790	19,331
<b>Total Receipts</b>	<b>305,431</b>	<b>287,480</b>
<b>DISBURSEMENTS</b>		
Current:		
General government	141,584	124,149
Public safety	9,375	9,375
Streets and highways	69,534	165,027
Culture and recreation	48,047	45,568
Capital outlay	--	--
<b>Total Disbursements</b>	<b>268,540</b>	<b>344,119</b>
Excess of Receipts over (under) Disbursements	36,891	(56,639)
<b>Other Financing Sources (Uses);</b>		
Bond payment	--	--
Interest payment	--	--
Transfers in	15,000	15,000
Investment sales/purchases	3,605	1,251
<b>Total Other Financing Sources (Uses)</b>	<b>18,605</b>	<b>16,251</b>
Net Changes in Cash Fund Balances	55,496	(40,388)
Fund Balances, Beginning	317,871	358,259
Fund Balances, Ending	<b>\$ 373,367</b>	<b>\$ 317,871</b>

See Accompanying Notes to Financial Statements.

City of Wahkon  
Wahkon, Minnesota  
PROPRIETARY FUND  
Statement of Balances Arising from Cash Transactions  
December 31, 2017  
*(With Comparative Amounts at December 31, 2016)*

	Business Type Activities	
	Enterprise Fund	
	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 369,590	\$ 348,971
Investments	--	--
Total Assets	\$ 369,590	\$ 348,971
 LIABILITIES AND NET ASSETS		
Liabilities	\$ --	\$ --
Net Assets:		
Unrestricted	369,590	348,971
Total Net Assets	369,590	348,971
Total Liabilities and Net Assets	\$ 369,590	\$ 348,971

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, 2017  
(With Comparative Totals at December 31, 2016)

	Business Type Activities	
	Enterprise Fund	
	2017	2016
<b>OPERATING RECEIPTS</b>		
Charges for services	\$ 209,959	\$ 203,487
Total Operating Receipts	209,959	203,487
<b>OPERATING DISBURSEMENTS</b>		
Personal services	22,208	19,125
Contractual services	23,507	40,967
Utilities	6,654	5,919
Repairs and maintenance	52,778	27,276
Supplies	15,505	9,837
Insurance	10,832	10,216
Total Operating Disbursements	131,484	113,340
Operating Income (Loss)	78,475	90,147
<b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>		
Special assessments	42,045	12,827
Refunds/reimbursements	482	3,158
Bond payments	(70,000)	(65,000)
Interest payments	(17,273)	(18,859)
Interest and investment receipts	645	621
Sale of Assets	1,245	1,251
Total Nonoperating Receipts (Disbursements)	(42,856)	(66,002)
Income (Loss) before Contributions and Transfers	35,619	24,145
Transfers In (Out)	(15,000)	(15,000)
Changes in Net Assets	20,619	9,145
Total Net Cash Assets, Beginning	348,971	339,826
Total Net Cash Assets, Ending	\$ 369,590	\$ 348,971

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, 2017  
*(With Comparative Totals at December 31, 2016)*

	Business Type Activities	
	Enterprise Fund	
	2017	2016
Cash Flows from Operating Activities:		
Receipts from customers	\$ 209,959	\$ 203,487
Payments to suppliers	(109,276)	(94,215)
Payments to employees	(22,208)	(19,125)
Net Cash Provided (Used) by Operating Activities	78,475	90,147
Cash Flows from Noncapital Financing Activities:		
Transfers to other funds	(15,000)	(15,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	(15,000)	(15,000)
Cash Flows from Capital and Related Financing Activities:		
Receipts from special assessments	42,045	12,827
Receipts from reimbursements	482	3,158
Interest paid on capital debt	(17,273)	(18,859)
Bond payments	(70,000)	(65,000)
Purchase of capital assets	1,245	1,251
Net Cash Provided by (Used in) Capital and Related Financing Activities	(43,501)	(66,623)
Cash Flows from Investing Activities		
Interest and dividends	645	621
Net Cash Provided by (Used in) Investing Activities	645	621
Net Increase (Decrease) in Cash and Cash Equivalents	20,619	9,145
Balances, Beginning of Year	348,971	339,826
Balances, End of Year	\$ 369,590	\$ 348,971

See Accompanying Notes to Financial Statements.

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City of Wahkon  
Wahkon, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

City of Wahkon  
Wahkon, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

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, 2017

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 2017 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 funds are approved by the City's council.

City of Wahkon  
Wahkon, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

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, 2017, 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, 2017, the City's deposits were not exposed to custodial credit risk.

City of Wahkon  
Wahkon, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

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, 2017

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	\$ 11,237
Total Investments					11,237
Deposits					731,720
Total Cash and Investments					<u>\$ 742,957</u>

City of Wahkon  
Wahkon, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 4: LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

Bonded <u>Indebtedness</u>	Interest Rate	Issue Date	Final Maturity Date	Outstanding January 1	Issued	Paid In	Outstanding December 31
G.O. Refunding note Series 2013A	2.35%	9/1/2013	2/1/2026	770,000	--	70,000	700,000
				<u>\$ 770,000</u>	<u>\$ --</u>	<u>\$ 70,000</u>	<u>\$ 700,000</u>
					<u>Due Within One Year</u>		
					<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General obligation sewer revenue bonds, series 2013A					<u>\$ 70,000</u>	<u>\$ 15,628</u>	<u>\$ 85,628</u>

The annual debt service requirements to maturity for long-term debt as of December 31, 2017, are as follows:

Years Ending <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 70,000	\$ 15,628	\$ 85,628
2019	70,000	13,983	83,983
2020	75,000	12,279	87,279
2021	75,000	10,517	85,517
2022	80,000	8,696	88,696
2023-2026	330,000	15,748	345,748
Totals	<u>\$ 700,000</u>	<u>\$ 76,851</u>	<u>\$ 776,851</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, 2017

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

The benefit provisions stated in the following paragraphs of this section are 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 2017. 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 2017. The City of Wahkon's contributions to the GERF for the year ended December 31, 2017, were \$8,006. The City of Wahkon's contributions were equal to the required contributions as set by state statute.

**3. Pensions Costs**

At December 31, 2017, the City of Wahkon reported a liability of \$108,527 for its proportionate share of the GERF's net pension liability. The City of Wahkon's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Wahkon totaled \$1,330. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City of Wahkon's proportion share was 0.0017%.



City of Wahkon  
Wahkon, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 5: OTHER NOTES (Continued)

A. Defined Benefit Pension Plan - Statewide(Continued)

3. **Pension Costs** (Continued)

For the year ended December 31, 2017, the City of Wahkon recognized pension expense of \$35,034 for its proportionate share of the GERP's pension expense. In addition, the City of Wahkon recognized an additional \$38 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to GERP.

At December 31, 2017, the City of Wahkon is reporting on the cash basis and therefore, there is no reporting of its proportionate share of the GERP's deferred outflows of resources and deferred inflows of resources related to pensions.

4. **Actuarial Assumptions**

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50 % per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year through 2044 and then 2.5% thereafter for GERP.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in GERP was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

City of Wahkon  
Wahkon, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 5: OTHER NOTES (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

4. **Actuarial Assumptions** (Continued)

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 geometric 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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	75.00%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

5. **Discount Rate**

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member and employer contributions will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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, 2017

NOTE 5: OTHER NOTES (Continued)

A. Defined Benefit Pension Plan - Statewide (Continued)

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the GERS net pension liability:	\$168,333	\$108,527	\$59,564

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](http://www.mnpera.org)

B. Defined Contribution Plan

One City employee is covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan 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, 2017

NOTE 5: OTHER NOTES (Continued)  
B. Defined Contribution Plan (Continued)

Total contributions made by the City were:

Year	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employees	Employer	
2017	\$ 6,939	\$ 8,006	5%	5%	5%

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 20, 2018, the date the financial statements were issued.

City of Wahkon  
Wahkon, Minnesota  
COMBINING AND INDIVIDUAL FUND SECTION  
December 31, 2017

City of Wahkon  
Wahkon, Minnesota  
GENERAL FUND  
Budgetary Comparison Schedule  
Cash Basis  
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
General Property Taxes	\$ 235,351	\$ 235,351	\$ 246,943	\$ 11,592
Licenses and Permits:				
Business	4,481	4,481	4,481	--
Non-business	1,000	1,000	5,275	4,275
Total Licenses and Permits	5,481	5,481	9,756	4,275
Intergovernmental:				
State grants -				
Market value credit	--	--	--	--
Other	1,164	1,164	8,310	7,146
Total Intergovernmental	1,164	1,164	8,310	7,146
Charges for Services:				
General government	1,400	1,400	1,547	147
Total Charges for Services	1,400	1,400	1,547	147
Fines and Forfeits:				
County court	900	900	3,188	2,288
Total Fines and Forfeits	900	900	3,188	2,288
Miscellaneous:				
Investment earnings	200	200	304	104
Donations	500	500	19,593	19,093
Franchise fees	2,200	2,200	2,473	273
Community events	--	--	11,997	11,997
Other	100	100	135	35
Refunds received	1,000	1,000	1,185	185
Total Miscellaneous	4,000	4,000	35,687	31,687
Total Receipts	248,296	248,296	305,431	57,135

City of Wahkon  
Wahkon, Minnesota  
GENERAL FUND  
Budgetary Comparison Schedule  
Cash Basis  
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<b>DISBURSEMENTS</b>				
<b>General Government:</b>				
Mayor and council	\$ 7,065	\$ 7,065	\$ 7,276	\$ (211)
Elections	--	--	--	--
Finance municipal clerk/treasurer	67,400	67,400	66,149	1,251
Independent accounting and auditing	9,500	9,500	8,341	1,159
Legal	9,000	9,000	13,491	(4,491)
Planning and zoning	9,350	9,350	10,836	(1,486)
City hall/general government bldgs	<u>56,520</u>	<u>56,520</u>	<u>35,491</u>	<u>21,029</u>
Total General Government	<u>158,835</u>	<u>158,835</u>	<u>141,584</u>	<u>17,251</u>
<b>Public Safety:</b>				
Fire protection	<u>9,375</u>	<u>9,375</u>	<u>9,375</u>	<u>--</u>
Total Public Safety	<u>9,375</u>	<u>9,375</u>	<u>9,375</u>	<u>--</u>
<b>Streets and Highways:</b>				
Street maintenance and storm sewers	71,100	71,100	53,961	17,139
Capital outlay	--	--	--	--
Snow and ice removal	12,200	12,200	8,112	4,088
Street lighting	<u>7,300</u>	<u>7,300</u>	<u>7,461</u>	<u>(161)</u>
Total Streets and Highways	<u>90,600</u>	<u>90,600</u>	<u>69,534</u>	<u>21,066</u>
<b>Culture and Recreation:</b>				
Community events	5,500	5,500	27,278	(21,778)
Parks	<u>22,825</u>	<u>22,825</u>	<u>20,769</u>	<u>2,056</u>
Total Culture and Recreation	<u>28,325</u>	<u>28,325</u>	<u>48,047</u>	<u>(19,722)</u>
Total Disbursements	<u>287,135</u>	<u>287,135</u>	<u>268,540</u>	<u>18,595</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from	15,000	15,000	15,000	--
Bond payment	--	--	--	--
Agent fee	--	--	--	--
Sale of Assets/Investments	--	--	3,605	3,605
Investment purchases	--	--	--	--
Interest payment	--	--	--	--
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>15,000</u>	<u>18,605</u>	<u>3,605</u>
Net Income (Loss)	(23,839)	(23,839)	55,496	79,335
Fund Balances, Beginning	<u>317,871</u>	<u>317,871</u>	<u>317,871</u>	<u>--</u>
Fund Balances, Ending	<u>\$ 294,032</u>	<u>\$ 294,032</u>	<u>\$ 373,367</u>	<u>\$ 79,335</u>

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City of Wahkon  
Wahkon, Minnesota  
SUPPLEMENTAL INFORMATION  
December 31, 2017

City of Wahkon  
Wahkon, Minnesota  
SCHEDULE OF INDEBTEDNESS  
December 31, 2017

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 refunding note series 2013A	2.35%	9/1/2013	2/1/2026	\$ 770,000	\$ --	\$ 70,000	\$ 700,000
				<u>\$ 770,000</u>	<u>\$ --</u>	<u>\$ 70,000</u>	<u>\$ 700,000</u>

City of Wahkon  
Wahkon, Minnesota  
SCHEDULE OF ACCOUNTS RECEIVABLE  
December 31, 2017

Fund	Source of Revenue and Purpose	Amount
Sewer	Usage Fees	\$ 37,645
Totals		<u>\$ 37,645</u>

SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES  
December 31, 2017

Fund	Vendor Name	Item and Purpose	Claim Number	Amount
General	PR	Payroll	24394	\$ 1,114
Sewer	PR	Payroll	24394	314
General	PR	Payroll	24395	1,334
Sewer	NCPERS Minnesota	Life insurance	24396	16
General	NCPERS Minnesota	Life insurance	24396	16
General	Wayne's Sanitation	Trash removal	24397	53
Sewer	Verizon	Cell phone	24398	74
Sewer	S.E.H	Engineer services	24399	2,000
General	Quill	Office supplies	24400	63
General	Postmaster	Stamps	24401	196
Sewer	Postmaster	Stamps	24401	136
Sewer	Pace Analytical	Pond Testing	24402	210
General	O'Neil, Holly	Website	24403	75
Sewer	Omni site	LS wireless service	24404	1,380
General	NJPA	Zoning services	24405	210
General	MSM	Fuel	24406	109
Sewer	MSM	Fuel	24406	109
General	Minnesota T's	Aprons	24407	32
General	MCSI	Copier lease	24408	75
General	Kennedy & Graven	Attorney	24409	406
General	Hardware Hank	Misc supplies	24410	63
Sewer	Hardware Hank	Misc supplies	24410	34
General	Isle Automotive	Vehicle supplies	24411	178
Sewer	Gopher State One Call	Locates	24412	3
General	Glen's Tire	Tires	24413	458
Sewer	Glen's Tire	Tires	24413	432
General	Frontier	Telephone	24414	75
General	ECE	Electric	24415	777
Sewer	ECE	Electric	24415	447
General	D&D beverage	Paper products	24417	40
General	Cemstone	Salt Sand	24418	593
General	C&D Machining & repair	DOT inspection	24419	228
General	AmeriPride	Uniforms	24420	104
General	DMV	Tabs	24421	32
Sewer	DMV	Tabs	24421	32
General	Traffic Logix Corp	Radar sign repair	24422	141
Sewer	WW E/I Fund	Transfer	EFT	100,000
Sewer	WW Debt servive	Transfer	EFT	78,225
Sewer	WW Fund	Accounting fee	EFT	15,000
General	Dock Fund	Transfer	EFT	500
General	MN PEIP	Insurance	24423	707
Sewer	MN PEIP	Insurance	24423	707

(continued on next page)



City of Wahkon  
Wahkon, Minnesota  
SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES (Continued)  
December 31, 2017

Fund	Vendor Name	Item and Purpose	Claim Number	Amount
General	ML Area Health Foundation	Donation	24424	\$ 1,000
General	IF Foundation	Donation	24425	250
General	Karrie Roeschlein	Mileage	24426	56
General	Federated Coop	Diesel	24427	84
General	PERA	Payment	EFT	505
Sewer	PERA	Payment	EFT	62
General	R.C Habeck Excavating	Snow removal	24428	2,363
General	MCAHS	Impound contract	24429	315
General	FNB of Milaca	Wire transfer fee	24430	30
General	Gen street fund	Govt aid	EFT	7,306
General	MN Dept of Revenue	Sales Tax	EFT	6
General	PR	Payroll	24431-37	2,517
Sewer	PR	Payroll	24431-37	461
General	PERA	Payment	EFT	477
Sewer	PERA	Payment	EFT	90
General	MN Dept of Revenue	Withholding	EFT	382
Sewer	MN Dept of Revenue	Withholding	EFT	45
General	EFTPS	Withholding	EFT	1,941
Sewer	EFTPS	Withholding	EFT	270
Sewer	Trust Company	Bond payment	1064	78,225
General	Visa	Home depot purchase	24438	54
Sewer	Visa	Home depot purchase	24438	31
General	Centerpoint energy	Gas utility	24439	218
			Totals	<u><u>\$ 303,386</u></u>

City of Wahkon  
Wahkon, Minnesota  
OTHER REPORTS  
December 31, 2017

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# Althoff and Nordquist, LLC

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## 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, 2017, and have issued our report thereon dated March 20, 2018. 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 20, 2018



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