

City of Pine City, Minnesota
BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

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

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City of Pine City, Minnesota
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS
December 31, 2015

Carl Pederson..... Mayor
Paul Miller..... Council Person
Brian Scholin..... Council Person
Steve Ovick..... Council Person
Mary Kay Sloan..... Council Person
Kenneth Cammilleri..... City Administrator
Jesse Dorn..... Consulting City Treasurer

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

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Pine City, Minnesota

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 City of Pine City, Minnesota, as of and for the year ended December 31, 2015, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Change in Accounting Principle

As described in Note 5 to the financial statements, 2015, the City adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages 10 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We express no opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pine City, Minnesota's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and supplementary financial information are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2016 on our consideration of the City of Pine City, Minnesota'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pine City, Minnesota's internal control over financial reporting and compliance.



Althoff & Nordquist, LLC
Pine City, Minnesota
May 11, 2016

City of Pine City, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

City of Pine City's Management's Discussion and Analysis

As the City of Pine City, we offer readers this Management's Discussion and Analysis as a narrative overview of the financial activities of the City of Pine City for the fiscal year ended December 31, 2015.

We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

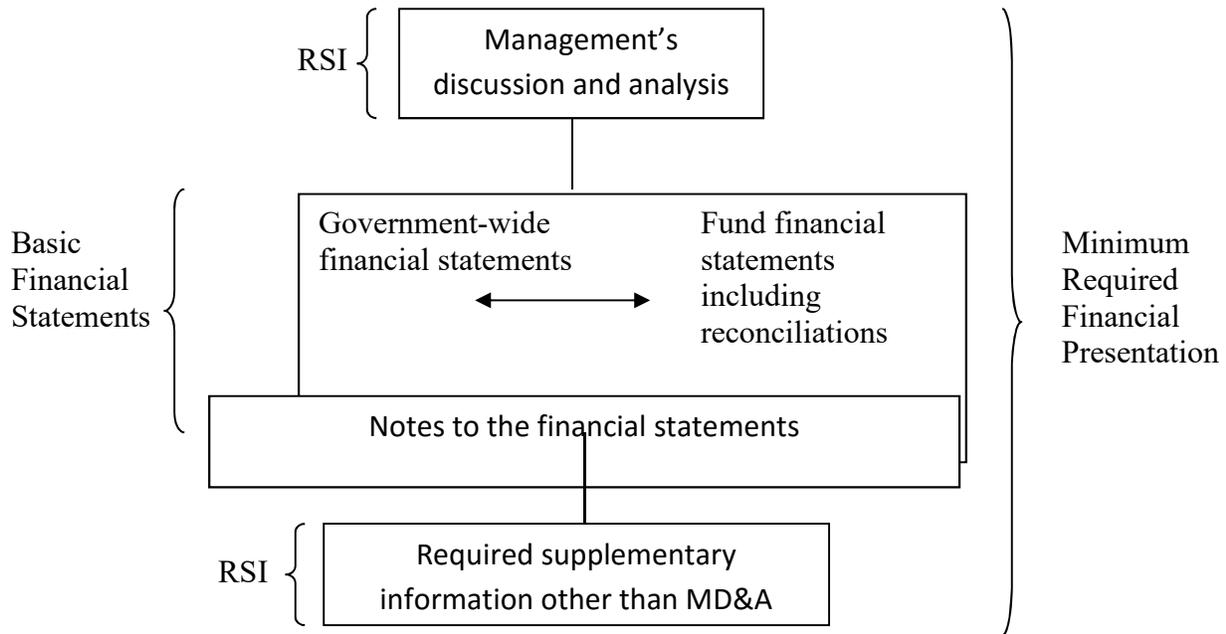
Financial Highlights

- Assets of all funds of the City of Pine City exceeded its liabilities at the close of the fiscal year by \$17,585,829 (*net position*).
- The government's total net position increased by \$17,308.
- As of the close of the current fiscal year, the City of Pine City's funds reported combined ending cash and investment balances of \$7,070,669, a decrease of \$291,863, in comparison with the prior year. This decrease was primarily due to the purchase and construction of capital assets.
- At the end of the current fiscal year, the fund balance of the General Fund was \$1,046,910, with other governmental funds having fund balances of \$2,505,198.
- Governmental activities contributed 56.3% of the City's total revenues, consumed 55.4% of total expenditures for the fiscal year, and decreased the governmental activities fund balances by 2.7%.
- Business-type activities contributed 43.7% of the City's total revenues, consumed 44.6% of total expenditures for the fiscal year, and increased the business-type activities net position by 3.7%.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Pine City's basic financial statements. The City's basic financial statements consist of three components; 1) government wide financial statements, 2) fund financial statements including reconciliations, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains required supplementary information (RSI) that will enhance the reader's understanding of the financial condition of the City of Pine City.

Minimum Required Financial Presentation



Source: *Audits of State and Local Governments (GASB 34 Edition)*

Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements** and consist of the Statement of Nets Assets and Statement of Activities. These statements are prepared using the full accrual basis of accounting, include long-term financial information about the City's capital assets and debt, and present both governmental and business-type activities.

The next statements are **Fund Financial Statements** and include the City's governmental and proprietary funds. The major and non-major governmental funds statements are prepared using the modified accrual basis of accounting and focus on the economic inflows and outflows of the individual funds of the City's government. Since these statements are prepared using a different basis of accounting than the government-wide financial statements, reconciliations are presented explaining the differences. Also included are the statements for the proprietary or business-type activities which are prepared using the full accrual basis of accounting. The financial statements after the notes to financial statements provide more information on certain funds that are defined as non-major.

The next sections of the basic financial statements are the **Notes to the Financial Statements**. The notes provide additional information for the data contained in the statements. After the notes, **Required Supplementary Information (RSI)** is provided to show details about the City's non-major governmental funds. Budgetary information required by the Governmental Accounting Standards Board (GASB) Statement No. 34 also can be found in this part of the report.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities, and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges for services it provides and include water, sewer, and the municipal liquor store.

Compiled data in the table below shows the Revenues and Expenditures by fund, before transfers:

FUND	REVENUES	EXPENDITURES	EXCESS OF REV/EXP
General	1,712,240	1,813,104	(100,864)
Capital Improvement	210,480	192,291	18,189
2015 Street Improvement	101	416,188	(416,087)
\$1,115,000 Refunding Bond	638	3	635
2008B G.O. Refunding Bond	78,918	144,826	(65,908)
2010A G.O. Refunding Bond	249,558	266,487	(16,929)
2011A G.O. Refunding Bond	121,856	121,508	348
2012A G.O. Cross-over Refunding Bond	40,766	78,439	(37,673)
2013B G.O. Taxable Bond	53,865	40,981	12,884
2015A G.O. Improvement Bond	4	41,737	(41,733)
Cemetery	22,370	20,614	1,756
Liquor	489,026	365,676	123,350
Water	1,118,666	716,182	402,484
Sewer	776,967	581,729	195,238
EDA Basic	39,364	33,153	6,211
Minnesota Investment Fund RLF	1,477	-	1,477
Revolving Loan Fund	3,483	-	3,483
2008 Street Reconstruction	116,856	636,625	(519,769)
Hardee's TIF District	14,881	1,010	13,871
DMC Company TIF	15,622	8,169	7,453
G. O. Taxable TIF Bonds 2003	231,980	220,726	11,254
Pine City Bottle Cap Condos TIF	15,376	8,107	7,269

Capital Asset and Debt Administration

Capital assets. City of Pine City's capital assets for its governmental activities as of December 31, 2015 was \$10,193,142 compared to December 31, 2014 of \$10,449,629 (net of accumulated depreciation). Business-Type activities capital assets as of December 31, 2015 were \$13,654,317 compared to December 31, 2014 of \$13,996,827. These assets include land, buildings and improvements, machinery, equipment and fixtures.

Major capital asset transactions during 2015 include:

- Beginning of 2015 Street Improvements (CSAH 8)
- Completion of 2014 Street Improvements (CSAH 8)
- Acquisition of new Fire Truck

City of Pine City's Capital Assets

	Governmental Activities	Business-Type Activities	Total
Land	251,688	141,051	392,739
Buildings, machinery and equipment	9,941,454	13,513,266	23,454,720
Totals	10,193,142	13,654,317	23,847,459

Detailed information on the City's capital assets can be found in the Basic Financial Statements.

City of Pine City's Outstanding Debt General Obligation and Revenue Bonds

Long-term Debt. As of December 31, 2015, the City of Pine City had total bonded debt outstanding for Governmental Activities of \$5,553,000 and Business-Type Activities of \$8,049,000 for a total of \$13,582,000, a net decrease of \$1,133,000 from 2014, all of which is debt backed by the full faith and credit of the City. As of December 31, 2014, the City of Pine City had total bonded debt outstanding for Governmental Activities of \$5,504,000 and Business Type Activities of \$9,211,000 for a total of \$14,715,000, a net decrease of \$8,311,000 from 2013, all of which is debt backed by the full faith and credit of the City.

Detailed information on the City's long-term debt can be found in the Notes to the Financial Statements.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Kenneth Cammilleri, City Administrator, City of Pine City, 315 Main St. S., Ste 100, Pine City, MN 55063.

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City of Pine City, Minnesota
BASIC FINANCIAL STATEMENTS
December 31, 2015

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City of Pine City, Minnesota
STATEMENT OF NET POSITION
December 31, 2015

	Governmental Activities	Business - Type Activities	2015 Totals	2014 Totals
ASSETS				
Cash and cash equivalents	\$ 3,505,569	\$ 3,565,100	\$ 7,070,669	\$ 3,089,831
Investments	--	--	--	1,204,078
Accounts receivable	52,132	186,485	238,617	179,377
Delinquent tax receivable	90,782	--	90,782	64,441
Assessment receivable	812,035	190,310	1,002,345	1,138,093
Due from other governmental units	8,551	--	8,551	33,333
Inventory	--	322,791	322,791	287,503
Loan receivable	62,818	--	62,818	89,000
Prepaid expenses	7,715	4,528	12,243	--
Restricted cash and investments	--	--	--	3,068,623
Capital assets, net of accumulated depreciation				
Land	251,688	141,051	392,739	382,681
Buildings, Equipment, Improvements	9,941,454	13,513,266	23,454,720	24,063,156
Total Assets	<u>14,732,744</u>	<u>17,923,531</u>	<u>32,656,275</u>	<u>33,600,116</u>
Deferred Outflow of Resources				
Related to Pensions	<u>6,852</u>	<u>--</u>	<u>6,852</u>	<u>--</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 14,739,596</u>	<u>\$ 17,923,531</u>	<u>\$ 32,663,127</u>	<u>\$ 33,600,116</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 49,721	\$ 110,322	\$ 160,043	\$ 568,961
Accrued expenses	6,919	184,526	191,445	213,287
Contract payable	47,737	--	47,737	--
Due to other governmental units	2,233	--	2,233	--
Net pension liability	637,477	--	637,477	--
Interest payable	155,947	--	155,947	168,708
Note payable	--	175,000	175,000	--
Unearned revenue	--	(1,846)	(1,846)	165,639
Total Current Liabilities	<u>900,034</u>	<u>468,002</u>	<u>1,368,036</u>	<u>1,116,595</u>
Noncurrent liabilities:				
Due within one year	647,000	547,000	1,194,000	1,298,000
Due in more than one year	4,886,000	7,502,000	12,388,000	13,617,000
Total Noncurrent Liabilities	<u>5,533,000</u>	<u>8,049,000</u>	<u>13,582,000</u>	<u>14,915,000</u>
Total Liabilities	<u>6,433,034</u>	<u>8,517,002</u>	<u>14,950,036</u>	<u>16,031,595</u>
Deferred Inflow of Resources				
Related to Pensions	<u>127,262</u>	<u>--</u>	<u>127,262</u>	<u>--</u>
Total Liabilities and Deferred Inflows	<u>\$ 6,560,296</u>	<u>\$ 8,517,002</u>	<u>\$ 15,077,298</u>	<u>\$ 16,031,595</u>
NET POSITION				
Investment in capital assets	\$ 4,913,027	\$ 5,605,317	\$ 10,518,344	\$ 9,591,306
Restricted for:				
Debt service	1,819,174	--	1,819,174	--
Unrestricted	<u>1,447,099</u>	<u>3,801,212</u>	<u>5,248,311</u>	<u>7,977,215</u>
Total Net Position	<u>\$ 8,179,300</u>	<u>\$ 9,406,529</u>	<u>\$ 17,585,829</u>	<u>\$ 17,568,521</u>

The notes to the financial statements are an integral part of the statements.

City of Pine City, Minnesota
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 576,924	\$ 77,370	\$ 17,000	\$ --
Public safety	740,958	288,880	500	--
Public works	897,773	6,166	6,588	70,950
Culture and recreation	198,199	31,933	6,110	--
TIF - EDA	55,433	1	3,461	--
Capital outlay	357,323	--	--	--
Debt service	178,346	--	--	--
Unallocated	--	--	--	--
Total Governmental Activities	3,004,956	404,350	33,659	70,950
Business - Type Activities:				
Liquor	1,584,524	1,702,765	--	--
Sewer	549,852	746,787	--	--
Water	542,808	1,105,315	--	--
Joint Powers - Building	--	--	--	--
Total Business - Type Activities	2,677,184	3,554,867	--	--
Total Primary Government	\$ 5,682,140	\$ 3,959,217	\$ 33,659	\$ 70,950

General Revenues:

- Property taxes
- Interest earnings
- General intergovernmental
- Net transfers
- Tax increments and assessments
- Sale of assets
- Miscellaneous

Total General Revenues and Transfers

- Changes in Net Position
- Prior Period Adjustment
- Net Position - Beginning
- Net Position - Ending

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	2015 Total	2014 Total
\$ (482,554)	\$ --	\$ (482,554)	\$ (452,811)
(451,578)	--	(451,578)	(146,258)
(814,069)	--	(814,069)	(526,282)
(160,156)	--	(160,156)	(75,723)
(51,971)	--	(51,971)	(67,147)
(357,323)	--	(357,323)	(992,559)
(178,346)	--	(178,346)	(294,618)
--	--	--	(205,392)
<u>(2,495,997)</u>	<u>--</u>	<u>(2,495,997)</u>	<u>(2,760,790)</u>
--	118,241	118,241	154,663
--	196,935	196,935	231,683
--	562,507	562,507	500,529
--	--	--	--
<u>--</u>	<u>877,683</u>	<u>877,683</u>	<u>886,875</u>
<u>(2,495,997)</u>	<u>877,683</u>	<u>(1,618,314)</u>	<u>(1,873,915)</u>
1,089,580	--	1,089,580	1,202,174
62,751	(164,005)	(101,254)	(262,693)
609,097	--	609,097	552,231
473,370	(473,370)	--	--
302,557	--	302,557	--
--	2,195	2,195	2,305
266,930	5,199	272,129	25,066
<u>2,804,285</u>	<u>(629,981)</u>	<u>2,174,304</u>	<u>1,519,083</u>
308,288	247,702	555,990	(354,832)
(626,134)	87,452	(538,682)	--
8,497,146	9,071,375	17,568,521	17,923,353
<u>8,179,300</u>	<u>9,406,529</u>	<u>17,585,829</u>	<u>17,568,521</u>

City of Pine City, Minnesota
GOVERNMENTAL FUNDS
Balance Sheet
December 31, 2015

	General Fund	Capital Projects 360 2015 Street Improvement	Debt Service 427 2008 Street Reconstruction
ASSETS			
Cash and cash equivalents	\$ 1,015,202	\$ 269,764	\$ 107,886
Accounts receivable	37,046	101	81
Delinquent taxes	88,923	--	--
Special Assessments			
Delinquent	150	--	1,456
Deferred	--	--	68,545
Due from other funds	--	--	--
Due from other gov. units	8,551	--	--
Prepaid expenses	7,715	--	--
Loan receivable	--	--	--
TOTAL ASSETS	\$ 1,157,587	\$ 269,865	\$ 177,968
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ --	\$ --	\$ --
Accounts payable	31,412	16,980	--
Contract payable	--	--	--
Accrued expenses	6,919	--	--
Due to other governments	2,233	--	--
Unearned revenue	70,113	--	69,986
Total Liabilities	110,677	16,980	69,986
Fund Balances:			
Nonspendable	7,715	--	--
Restricted	--	252,885	107,982
Committed	--	--	--
Assigned	--	--	--
Unassigned	1,039,195	--	--
Total Fund Balances	1,046,910	252,885	107,982
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,157,587	\$ 269,865	\$ 177,968

The notes to the financial statements are an integral part of the statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,112,717	\$ 3,505,569
14,904	52,132
1,859	90,782
6,686	8,292
735,198	803,743
268,154	268,154
--	8,551
--	7,715
62,818	62,818
<u>\$ 3,202,336</u>	<u>\$ 4,807,756</u>
\$ 268,154	\$ 268,154
1,329	49,721
47,737	47,737
--	6,919
--	2,233
740,785	880,884
<u>1,058,005</u>	<u>1,255,648</u>
--	7,715
1,079,581	1,440,448
425,000	425,000
899,059	899,059
(259,309)	779,886
<u>2,144,331</u>	<u>3,552,108</u>
<u>\$ 3,202,336</u>	<u>\$ 4,807,756</u>

City of Pine City, Minnesota
RECONCILIATION OF NET POSITION IN THE GOVERNMENT-WIDE
FINANCIAL STATEMENTS AND FUND BALANCES IN THE
FUND BASIS FINANCIAL STATEMENTS
December 31, 2015
(With Comparative Amounts for December 31, 2014)

	2015	2014
Amounts reported for governmental activities in the statement of net position are different because:		
Total governmental fund balances	\$ 3,552,108	\$ 3,394,380
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	18,195,323	18,017,864
Less: accumulated depreciation	(8,002,181)	(7,568,235)
Construction in Progress to Capital Assets	--	--
	10,193,142	10,449,629
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred within governmental funds.		
Special assessments	880,884	970,845
Pension Related Items for GASB #68:		
Deferred outflow of resources	6,852	--
Deferred inflow of resources	(127,262)	--
Net Pension Liability	(637,477)	--
	(757,887)	--
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are to reported in the funds.		
Accrued interest	(155,947)	(168,708)
Bonds payable	(5,533,000)	(6,149,000)
	(5,688,947)	(6,317,708)
Net position of governmental activities	\$ 8,179,300	\$ 8,497,146

The notes to the financial statements are an integral part of the statements.

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City of Pine City, Minnesota
GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2015

	General Fund	Capital Projects 2015 Street Improvement	Debt Service 2008 Street Reconstruction
Revenues:			
General property taxes	\$ 578,470	\$ --	\$ 70,000
Tax increments	--	--	--
Special assessments	1,309	--	10,100
Intergovernmental	609,097	--	--
Licenses and permits	38,104	--	--
Charges for services	420,233	--	--
Fines and forfeits	4,767	--	--
Interest earned	6,797	101	36,756
Refunds and reimb.	20,617	--	--
Grants	11,096	--	--
Miscellaneous	21,750	--	--
Total Revenues	1,712,240	101	116,856
Expenditures:			
General government	510,616	--	--
Public safety	617,402	--	--
Public works	458,208	--	--
Culture and rec.	173,842	--	--
Miscellaneous	53,036	416,188	219
Debt service			
Principal	--	--	610,000
Interest	--	--	26,406
TIF	--	--	--
Total Expenditures	1,813,104	416,188	636,625
Excess (Deficit) of Revenues over (under) Expenditures	(100,864)	(416,087)	(519,769)
Other Financing Sources (Uses):			
Proceeds from bonds	--	668,972	--
Transfers in	125,000	--	518,478
Transfers out	--	--	--
Total Other Financing Sources (Uses)	125,000	668,972	518,478
Net Changes	24,136	252,885	(1,291)
Prior period adjustment	73,045	--	5,446
Fund Balances-Beginning	949,729	--	103,827
Fund Balances-Ending	\$ 1,046,910	\$ 252,885	\$ 107,982

The notes to the financial statements are an integral part of this statement.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 441,110	\$ 1,089,580
69,667	69,667
221,481	232,890
--	609,097
--	38,104
18,840	439,073
--	4,767
19,097	62,751
117,082	137,699
--	11,096
213,361	235,111
<u>1,100,638</u>	<u>2,929,835</u>
--	510,616
--	617,402
201,201	659,409
--	173,842
38,824	508,267
726,000	1,336,000
164,701	191,107
47,325	47,325
<u>1,178,051</u>	<u>4,043,968</u>
(77,413)	(1,114,133)
51,028	720,000
1,236,417	1,879,895
(1,406,525)	(1,406,525)
<u>(119,080)</u>	<u>1,193,370</u>
(196,493)	79,237
--	78,491
<u>2,340,824</u>	<u>3,394,380</u>
<u>\$ 2,144,331</u>	<u>\$ 3,552,108</u>

City of Pine City, Minnesota
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015
 (With Comparative Amounts for December 31, 2014)

	2015	2014
Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances - total governmental funds	\$ 79,237	\$ (1,115,596)
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay, net of deletions	(177,459)	(292,613)
Depreciation expense	433,946	408,613
	256,487	116,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(524,444)	(895,719)
Pension Related Items for GASB #68:		
Pension expense	(53,262)	--
Prior period adjustment - pension liability	(704,625)	--
State Aid (Pensions)	--	--
	(757,887)	--
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principle is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Proceeds from bond sales	(720,000)	--
Changes in accrued interest, net	12,761	(168,708)
Principal retirement on long-term debt, net	1,336,000	1,149,000
	628,761	980,292
Change in net position due to governmental activities	\$ (317,846)	\$ (915,023)

The notes to the financial statements are an integral part of the statements.

City of Pine City, Minnesota
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2015

	Original & Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:			
General property taxes	\$ 631,750	\$ 578,470	\$ (53,280)
Special assessments	983	1,309	326
Intergovernmental revenues	559,028	609,097	50,069
Licenses and permits	37,600	38,104	504
Charges for services	384,847	420,233	35,386
Fines and forfeits	12,000	4,767	(7,233)
Interest earned	2,000	6,797	4,797
Refunds and reimbursements	3,800	20,617	16,817
Grants	3,000	11,096	8,096
Miscellaneous	9,800	21,750	11,950
Total Revenues	<u>1,644,808</u>	<u>1,712,240</u>	<u>67,432</u>
Expenditures:			
General Government -			
Mayor and council	28,850	25,706	3,144
City administration	353,767	267,289	86,478
Elections	300	165	135
City treasurer	91,381	104,030	(12,649)
City assessor	15,417	15,401	16
Planning	82,095	98,025	(15,930)
Total General Government	<u>571,810</u>	<u>510,616</u>	<u>61,194</u>
Public Safety -			
Building inspection	70,620	79,314	(8,694)
Health inspection	216	215	1
Legal	19,000	8,763	10,237
Police protection	165,163	165,162	1
Fire protection	332,445	363,948	(31,503)
Total Public Safety	<u>587,444</u>	<u>617,402</u>	<u>(29,958)</u>
Public Works -			
Street	428,081	458,208	(30,127)
Total Public Works	<u>428,081</u>	<u>458,208</u>	<u>(30,127)</u>

The notes to the financial statements are an integral part of this statement.

City of Pine City, Minnesota
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2015

	Original & Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures: (Continued)			
Culture and Recreation -			
Parks and playgrounds	\$ 80,590	\$ 96,166	\$ (15,576)
Swimming beach	54,600	50,612	3,988
Recreation/Educational/Social	23,800	27,064	(3,264)
Total Culture and Recreation	<u>158,990</u>	<u>173,842</u>	<u>(14,852)</u>
Miscellaneous			
Miscellaneous	3,650	53,036	(49,386)
Total Miscellaneous	<u>3,650</u>	<u>53,036</u>	<u>(49,386)</u>
Total Expenditures	<u>1,749,975</u>	<u>1,813,104</u>	<u>(63,129)</u>
Excess (Deficit) of Revenues over (under) Expenditures	(105,167)	(100,864)	4,303
Other Financing Sources:			
Transfers in	125,000	125,000	--
Total Other Financing Sources	<u>125,000</u>	<u>125,000</u>	<u>--</u>
Net Changes in Fund Balances	19,833	24,136	4,303
Prior period adjustment	--	73,045	73,045
Fund Balances - Beginning	<u>949,729</u>	<u>949,729</u>	<u>--</u>
Fund Balances - Ending	<u>\$ 969,562</u>	<u>\$ 1,046,910</u>	<u>\$ 77,348</u>

The notes to the financial statements are an integral part of this statement.

City of Pine City, Minnesota
PROPRIETARY FUNDS
Statement of Net Position
December 31, 2015

	<u>Business - Type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Liquor Fund</u>	<u>Sewer Utility Fund</u>	<u>Water Utility Fund</u>	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 300,471	\$ 1,436,690	\$ 1,827,939	\$ 3,565,100
Investments	--	--	--	--
Accounts receivable	250	106,926	79,309	186,485
Delinquent taxes receivable	--	--	--	--
Assessments receivable	--	95,347	94,963	190,310
Due from other funds	--	--	--	--
Inventory	322,791	--	--	322,791
Prepaid items	940	1,794	1,794	4,528
Total Current Assets	<u>624,452</u>	<u>1,640,757</u>	<u>2,004,005</u>	<u>4,269,214</u>
Noncurrent Assets:				
Capital Assets -				
Construction in progress	--	83,783	114,871	198,654
Non-depreciable	35,773	20,000	85,278	141,051
Depreciable	342,762	10,233,973	7,045,340	17,622,075
Less: accumulated depreciation	<u>(246,265)</u>	<u>(1,876,806)</u>	<u>(2,184,392)</u>	<u>(4,307,463)</u>
Total Capital Assets (net of accumulated depreciation) and Noncurrent Assets	<u>132,270</u>	<u>8,460,950</u>	<u>5,061,097</u>	<u>13,654,317</u>
TOTAL ASSETS	<u><u>\$ 756,722</u></u>	<u><u>\$ 10,101,707</u></u>	<u><u>\$ 7,065,102</u></u>	<u><u>\$ 17,923,531</u></u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 92,498	\$ 9,074	\$ 8,750	\$ 110,322
Contract payable	--	--	--	--
Due to other funds	--	--	--	--
Accrued expenses	42,924	39,954	101,648	184,526
Unearned revenues	<u>(1,846)</u>	<u>--</u>	<u>--</u>	<u>(1,846)</u>
Total Current Liabilities	<u>133,576</u>	<u>49,028</u>	<u>110,398</u>	<u>293,002</u>
Noncurrent Liabilities:				
Notes payable	--	--	175,000	175,000
Bonds payable	--	1,237,440	6,811,560	8,049,000
TOTAL LIABILITIES	<u><u>\$ 133,576</u></u>	<u><u>\$ 1,286,468</u></u>	<u><u>\$ 7,096,958</u></u>	<u><u>\$ 8,517,002</u></u>
NET POSITION				
Invested in capital assets, net of related debt	\$ 132,270	\$ 7,223,510	\$ (1,750,463)	\$ 5,605,317
Unrestricted	490,876	1,591,729	1,718,607	3,801,212
TOTAL NET POSITION	<u><u>\$ 623,146</u></u>	<u><u>\$ 8,815,239</u></u>	<u><u>\$ (31,856)</u></u>	<u><u>\$ 9,406,529</u></u>

The notes to the financial statements are an integral part of the statements.

City of Pine City, Minnesota
PROPRIETARY FUNDS
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended December 31, 2015

	<u>Business - Type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Liquor Fund</u>	<u>Sewer Utility Fund</u>	<u>Water Utility Fund</u>	
Operating Revenues:				
Sales and charges for services	\$ 1,702,765	\$ 746,787	\$ 1,084,035	\$ 3,533,587
Less: Cost of Sales	(1,218,848)	--	--	(1,218,848)
Rental income	--	--	21,280	21,280
Total Operating Revenues	<u>483,917</u>	<u>746,787</u>	<u>1,105,315</u>	<u>2,336,019</u>
Operating Expenses:				
Operations and maintenance	348,838	251,751	260,918	861,507
Depreciation	16,838	298,101	281,890	596,829
Total Operating Expenses	<u>365,676</u>	<u>549,852</u>	<u>542,808</u>	<u>1,458,336</u>
Operating Income (Loss)	<u>118,241</u>	<u>196,935</u>	<u>562,507</u>	<u>877,683</u>
Nonoperating Revenues (Expenses):				
Sale of assets	--	--	2,195	2,195
Interest expense	--	(31,877)	(173,374)	(205,251)
Grants	--	--	--	--
Interest earned	733	30,097	10,416	41,246
Refunds and reimbursements	4,376	83	740	5,199
Total Nonoperating Revenues (Expenses)	<u>5,109</u>	<u>(1,697)</u>	<u>(160,023)</u>	<u>(156,611)</u>
Income Before Transfers	123,350	195,238	402,484	721,072
Transfers In (Out)	<u>(125,000)</u>	<u>(171,410)</u>	<u>(176,960)</u>	<u>(473,370)</u>
Changes in Net Position	(1,650)	23,828	225,524	247,702
Prior period adjustment	(41,807)	3,714,138	(3,584,879)	87,452
Total Net Position - Beginning	<u>666,603</u>	<u>5,077,273</u>	<u>3,327,499</u>	<u>9,071,375</u>
Total Net position - Ending	<u>\$ 623,146</u>	<u>\$ 8,815,239</u>	<u>\$ (31,856)</u>	<u>\$ 9,406,529</u>

The notes to the financial statements are an integral part of the statements.

City of Pine City, Minnesota
 PROPRIETARY FUNDS
 Statement of Cash Flows
 For the Year Ended December 31, 2015

	Business - Type Activities - Enterprise Funds			Totals
	Liquor Fund	Sewer Utility Fund	Water Utility Fund	
Cash Flows from Operating Activities:				
Receipts from customers	\$ 1,703,793	\$ 763,959	\$ 1,095,173	\$ 3,562,925
Payments to suppliers	(1,403,953)	(208,584)	(146,758)	(1,759,295)
Payments to employees	(193,190)	(101,710)	(101,710)	(396,610)
Net Cash Provided (Used) by Operating Activities	<u>106,650</u>	<u>453,665</u>	<u>846,705</u>	<u>1,407,020</u>
Cash Flows from Noncapital Financing Activities:				
Transfers from/(to) other funds	(125,000)	(171,410)	(176,960)	(473,370)
Total Cash Flows Provided (Used) by Noncapital Financing Activities	<u>(125,000)</u>	<u>(171,410)</u>	<u>(176,960)</u>	<u>(473,370)</u>
Cash Flows from Capital and Related Financing Activities:				
Sales of assets	--	--	2,195	2,195
Refunds and reimbursements	4,376	83	740	5,199
Grants	--	--	--	--
Principal bond payments	--	(80,335)	(461,665)	(542,000)
Interest expense	--	(31,877)	(173,374)	(205,251)
(Purchases) of capital assets	(49,536)	(82,792)	(95,390)	(227,718)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(45,160)</u>	<u>(194,921)</u>	<u>(727,494)</u>	<u>(967,575)</u>
Cash Flows from Investing Activities:				
Interest earned	733	30,097	10,416	41,246
Net Cash Provided (Used) by Investing Activities	<u>733</u>	<u>30,097</u>	<u>10,416</u>	<u>41,246</u>
Net Increase (Decrease) in Cash	(62,777)	117,431	(47,333)	7,321
Cash at Beginning of Year	<u>363,248</u>	<u>1,319,259</u>	<u>1,875,272</u>	<u>3,557,779</u>
Cash at End of Year	<u>\$ 300,471</u>	<u>\$ 1,436,690</u>	<u>\$ 1,827,939</u>	<u>\$ 3,565,100</u>

The notes to the financial statements are an integral part of the statements.

City of Pine City, Minnesota
 PROPRIETARY FUNDS
 Statement of Cash Flows
 For the Year Ended December 31, 2015

	<u>Business - Type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Liquor Fund</u>	<u>Sewer Utility Fund</u>	<u>Water Utility Fund</u>	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 127,425	\$ 456,597	\$ 678,206	\$ 1,262,228
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	7,654	98,668	166,194	272,516
Changes in Net Assets and Liabilities:				
(Increase) decrease in accounts receivable	1,028	(43,058)	11,134	(30,896)
(Increase) decrease in due from	--	--	--	--
(Increase) decrease in inventory	(35,288)	--	--	(35,288)
(Increase) decrease in delinquent tax receivable	--	1,235	1,149	2,384
(Increase) decrease in assessments/taxes	--	(8,110)	(14,944)	(23,054)
(Increase) decrease in prepaids	(940)	(1,794)	(1,794)	(4,528)
Increase (decrease) in accounts payable	(4,594)	5,644	(2,127)	(1,077)
Increase (decrease) in contract payable	--	--	--	--
Increase (decrease) in accrued expenses	11,595	31,720	88,905	132,220
Increase (decrease) in due to	--	--	--	--
Increase (decrease) in deferred revenue	(230)	(87,237)	(80,018)	(167,485)
Total Adjustments	<u>(20,775)</u>	<u>(2,932)</u>	<u>168,499</u>	<u>144,792</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 106,650</u>	<u>\$ 453,665</u>	<u>\$ 846,705</u>	<u>\$ 1,407,020</u>

The notes to the financial statements are an integral part of the statements.

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Pine City, Minnesota have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard - setting body for establishing governmental accounting and financial reporting principles.

The more significant accounting policies follow:

A. Reporting Entity

The City of Pine City is a statutory city operating under chapter 412 of Minnesota Statutes and under a number of other statutes that apply to cities. The accompanying financial statements present the City's primary government and component unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

Blended Component Unit. The Economic Development Authority (EDA) serves all the citizens of the government and is governed by a board comprised of the governments elected council. The council approves and controls all financing of the Authority. City personnel handle all financial and fiscal matters. No separate audited financial statements are issued.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be *available* if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due

Property taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund and always reports as a major fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Capital Projects- 2015 Street Improvements. This fund accounts for resources for, and the expenditures of, capital purchases such as machines and equipment.

Debt Service - 2008 Street Reconstruction - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest associated with the specified bonds.

Individual governmental funds and all enterprise funds are reported in separate columns as major funds based on these criteria:

- a: Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all fund of that category or type (than is, total governmental or total enterprise funds).
- b: Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) are reported as a major fund.

The City reports the following major proprietary funds:

1. The *liquor fund* accounts for the operation of the City liquor store.
2. The *water utility fund* accounts for the operation of the City owned water utility system.
3. The *sewer utility fund* accounts for the operations of the City owned water reclamation system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Auditing Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. The City has implemented GASB 54 Fund Balance Policy as explained in a later footnote.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and investments

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

1. Deposits and investments (Continued)

Investments are stated at fair value, based upon quoted market prices at the reporting date.

Cash and cash equivalents for purposes of the general purpose financial statements includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available for appropriation and are not expendable available financial resources.

Property tax levies are set by the City Council in December in each year and are certified to Pine County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1, of the following year, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectible, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of January, June, and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. The net amount of delinquent taxes receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

Special assessment:

Special assessment receivable - delinquent represent the past year of uncollected special assessments and is offset by deferred revenues. Special assessment receivable - deferred are those assessments for property owner improvements made by the City. These assessments are made at various times by City resolution and are collectible over period ranging from one to fifteen years and bear interest at 6% to 8% annually. These are also offset by deferred revenues.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

2. Receivables and payables (Continued)

Accounts receivable:

Based on historical collection experience, no allowance has been made for doubtful accounts. Accounts that are determined to be uncollectible are expensed during the period.

3. Inventory

Inventory of the municipal liquor fund is valued at average cost.

4. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

Property, plant, and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

Assets	Useful Life in Years
Land	Not depreciated
Buildings	50
Infrastructure	30
Other improvements	30-50
Machinery and equipment	5-15

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

NOTE 1: SUMMARY OF ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

6. Compensated absences benefits

Vacation pay is recorded as expenditure when earned in both the governmental and proprietary fund types. Vacation days may be accrued to one and one-half times annual vacation earned.

Sick pay can be accumulated up to a maximum of 110 days; however, current City policy is loss of sick pay upon termination of employment. Because of this fact, sick pay is recognized as an expenditure when payment is made. The amount of actual sick pay on an annual basis is nil.

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are immaterial and are expensed in the year of bond issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not appropriable for expenditure or legally segregated for a specific future use. Assigned fund balances represent tentative plans for future use of financial resources.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

1. Formal budgetary information is employed as a management control device during the year for the general fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary control for capital projects is accomplished through the use of project controls.
2. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
3. Annual budgets are adopted for the general and special revenue funds.
4. The level of control is at the fund level.

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

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)
 A. Budgetary Information (Continued)

5. All budgeted appropriations lapse at the end of the year.
6. The City's administrator may approve transfers between allowances within a funds budget and the extent of such revision is not limited except that the fund's total budget may not be exceeded.

The City Council may increase the budget for expenditures of any fund as the city does not have any ordinances restricting increases. Budgets as adopted, however, are not automatically changed unless it has been demonstrated that a specific need exists and adequate funds are available.

7. The amounts shown in the financial statements as "Budgeted" represent the original budgeted amounts and all revisions during the year.

NOTE 3: DETAILED NOTES ON ALL FUNDS

The City has adopted GASB No. 40.

A. Deposits

In accordance with Minnesota Statutes, the City maintains deposits with national banks, insured state banks or thrift institutions as authorized by the City Council.

The following is a summary of the City's cash and investment portfolio:

<u>Cash and Investment Type</u>	December 31, 2015
	<u>Amount</u>
US Government Obligation/Securities/Notes/Bonds	\$ 199,314
Certificates of deposit	2,644,537
Money market (Wells Fargo/Stearns/Northwood's) banks	3,551,071
Cash and deposits	<u>675,747</u>
 Total Cash and Investments	 <u>\$ 7,070,669</u>

Minnesota Statutes requires that all City deposits be insured, secured by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments described in Section B. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

B. Investments

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Share of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- (h) General obligations of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rate "A" or better by a national bond rating agency.
- (i) Any security which is an obligation of a School District with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to section 126C.55.

Cash and Investment balances as of December 31, 2015, are as follows:

	Fair Value
Citigroup Smith Barney	\$ 1,976,063
Spire Credit Union	29
Northwood's Bank	2,898,393
Stearns	1,696,184
Wells Fargo	500,000
	\$ 7,070,669

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

B. Investments (Continued)

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the government and City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

Short-term, highly liquid debt instruments (Including commercial paper, banker's acceptances and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Minnesota Statutes requires all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Cash and investments at December, 31, 2015 were comprised of deposits, brokered certificates of deposit, and money markets.

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy in place to address custodial credit risk for deposits, stating all deposits must be in compliance with Minnesota Statutes 118A.

Interest Rate Risk: The City's investment policy does not include specific limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates. It does suggest avoiding a concentration of investments within a specific maturity sector or range.

Credit Risk: The City's investment policy refers to *Minnesota Statutes* 118A. The Statute limits investments in the top two ratings issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk: The City's investment policy places no specific limit on the amount the City may invest in any one issuer. It does state the City should avoid over investing in specific investments or issuers.

Custodial Credit Risk - Investments: For an investment, this is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's investment policy states all investments shall be held in third party safekeeping by an institution designated as custodial agent.

C. Receivable

Receivables as of year end for the government's individual major funds and nonmajor funds in the aggregate are as follows:

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

C. Receivable (Continued)

	Accounts Receivable	Taxes- Delinquent	Special Assessment	Due From Gov't	Loan Receivable	Net Total Receivable
Funds:						
General	\$ 37,046	\$ 88,923	\$ 150	\$ 8,551	\$ --	\$ 134,670
Capital proj.	101	--	--	--	--	101
Debt Service	81	--	70,001	--	--	70,082
Liquor	250	--	--	--	--	250
Sewer	106,926	--	95,347	--	--	202,273
Water	79,309	--	94,963	--	--	174,272
Nonmajor	14,904	1,859	741,884	--	62,818	821,465
Totals	<u>\$ 238,617</u>	<u>\$ 90,782</u>	<u>\$ 1,002,345</u>	<u>\$ 8,551</u>	<u>\$ 62,818</u>	<u>\$ 1,403,113</u>

D. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land and improvements	\$ 244,403	\$ --	\$ (7,285)	\$ 251,688
Total capital assets, not being depreciated	<u>244,403</u>	<u>--</u>	<u>(7,285)</u>	<u>251,688</u>
Capital assets, being depreciated:				
Buildings and improvements	4,260,025	132,630	1,001,031	3,391,624
Other improvements	10,681,961	240,291	(407,483)	11,329,735
Equipment and fixtures	2,831,475	--	25,388	2,806,087
Construction in progress	--	217,579	(198,610)	416,189
Total capital assets, being depreciated	<u>17,773,461</u>	<u>590,500</u>	<u>420,326</u>	<u>17,943,635</u>
Less: accumulated depreciation for:				
Buildings and improvements	983,864	99,257	--	1,083,121
Other improvements	4,709,972	191,829	--	4,901,801
Equipment and fixtures	1,874,399	120,149	(22,711)	2,017,259
Total accumulated depreciation	<u>7,568,235</u>	<u>411,235</u>	<u>(22,711)</u>	<u>8,002,181</u>
Total capital assets, being depreciated, net	<u>10,205,226</u>	<u>179,265</u>	<u>443,037</u>	<u>9,941,454</u>
Governmental activities capital assets, net	<u>\$ 10,449,629</u>	<u>\$ 179,265</u>	<u>\$ 435,752</u>	<u>\$ 10,193,142</u>

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

Business - Type Activities	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land and improvements	\$ 138,278	\$ --	\$ (2,773)	\$ 141,051
Total capital assets, not being depreciated	<u>138,278</u>	<u>--</u>	<u>(2,773)</u>	<u>141,051</u>
Capital assets, being depreciated:				
Buildings, machinery and equipment	18,041,931	178,182	399,384	17,820,729
Total capital assets, being depreciated	<u>18,041,931</u>	<u>178,182</u>	<u>399,384</u>	<u>17,820,729</u>
Less: accumulated depreciation for:				
Buildings, machinery and equipment	4,183,382	324,313	200,232	4,307,463
Total accumulated depreciation	<u>4,183,382</u>	<u>324,313</u>	<u>200,232</u>	<u>4,307,463</u>
Total capital assets being depreciated, net	<u>13,858,549</u>	<u>(146,131)</u>	<u>199,152</u>	<u>13,513,266</u>
Business - type activities capital assets, net	<u>\$ 13,996,827</u>	<u>\$ (146,131)</u>	<u>\$ 196,379</u>	<u>\$ 13,654,317</u>

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities</u>	
General government	\$ 13,046
Public safety	123,556
Public works	215,653
Culture and recreation	24,357
Capital outlay	26,515
EDA	8,108
Total depreciation expense - governmental activities	<u>\$ 411,235</u>
<u>Business - Type Activities</u>	
Liquor	\$ 9,185
Sewer	115,696
Water	199,432
Total depreciation expense - business - type activities	<u>\$ 324,313</u>

E. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

F. Interfund Receivables, Payables, and Transfer:

The composition of interfund balances as of December 31, 2015, is as follows:

Fund	Due From	Due To
EDA Basic	\$ 8,345	\$ --
Capital Improvement	259,809	--
2009 Street Reconstruction	--	259,309
Fire Hall Construction	--	500
GO Taxable TIF Bonds 2003	--	8,345
	<u>\$ 268,154</u>	<u>\$ 268,154</u>

Interfund Transfers:

Funds	Transfers	
	In	Out
General	\$ 125,000	\$ --
Debt service	1,280,925	932,555
Special revenue	473,970	473,970
Capital projects	--	--
Enterprise	--	473,370
Totals	<u>\$ 1,879,895</u>	<u>\$ 1,879,895</u>

G. Long-Term Debt

General Obligation Bonds:

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years was \$6,840,000.

General obligation bonds are direct obligations and pledge the full-faith and credit of the government. These bonds generally are issued as 15-year bonds with amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	1.00-5.90%	\$ 5,533,000
Business - type activities	1.00-4.20%	8,049,000
Totals		<u>\$ 13,582,000</u>

General Obligation Bonds, Series 2013B for \$585,000 were issued dated July 25, 2013 with a maturity date of July 25, 2033. The first coupon date is July 25, 2014. The issuance has a net interest cost of 3.5023%. The outstanding balance at the end of the year was \$585,000. The first principal payment of \$21,000 is due July 25, 2014. General Obligation Bonds, Series 2013A for \$1,481,000 were issued dated July 25, 2013 with a maturity date of January 1, 2053. The first coupon date is January 1, 2015. The outstanding balance at the end of the year was \$1,481,000. The first principal payment of \$22,000 is due January 1, 2015.

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-Term Debt (Continued)

General Obligation Bonds: (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities		Business - Type Activities	
	Principal	Interest	Principal	Interest
2016	647,000	155,947	547,000	197,753
2017	663,000	138,520	498,000	186,706
2018	544,000	122,970	514,000	176,315
2019	535,000	109,356	524,000	165,755
2020	445,000	96,373	540,000	154,816
2021-2025	1,515,000	332,950	2,669,000	581,866
2026-2030	953,000	154,624	1,705,000	234,228
2031-2035	231,000	13,120	175,000	135,374
2036-2040	--	--	202,000	109,898
2041-2045	--	--	232,000	80,498
2046-2050	--	--	265,000	46,744
2051-2053	--	--	178,000	9,877
Totals	<u>\$ 5,533,000</u>	<u>\$ 1,123,860</u>	<u>\$ 8,049,000</u>	<u>\$ 2,079,830</u>

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-Term Debt (Continued)
General Obligation Bonds: (Continued)

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
General obligation bonds:					
G.O. Sewer & Water					
Revenue 2006A	85,000	--	35,000	50,000	50,000
G. O. Improvement Bonds					
Series 2008A	665,000	--	610,000	55,000	55,000
G.O. Refunding Bonds					
Series 2008B	440,000	--	130,000	310,000	140,000
G. O. Refunding Bonds of 2010A	1,375,000	--	230,000	1,145,000	225,000
G. O. TI Refunding Bonds of 2010B	335,000	--	210,000	125,000	10,000
G. O. Building Bonds of 2011A	1,515,000	--	70,000	1,445,000	70,000
G. O. Crossover Refunding Bonds of 2012A	7,645,000	--	525,000	7,120,000	545,000
G. O. Crossover Refunding Bonds of 2012B	610,000	--	--	610,000	10,000
G. O. Taxable Improvement Bonds of 2013B	564,000	--	21,000	543,000	22,000
G. O. Taxable Improvement Bonds of 2013A	1,481,000	--	22,000	1,459,000	22,000
G. O. Improvement Bonds Series 2015A	--	720,000	--	720,000	45,000
Totals	<u>\$ 14,715,000</u>	<u>\$ 720,000</u>	<u>\$ 1,853,000</u>	<u>\$ 13,582,000</u>	<u>\$ 1,194,000</u>

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

NOTE 3.: DETAILED NOTES ON ALL FUNDS (Continued)

H. Tax Increment Financing

Pursuant to Minnesota Statutes section 469.175, subd. 6, the City is required to disclose information relating to its tax increment districts.

The City of Pine City is the administering authority for the following tax increment finance districts:

1. Development District No. 1-1 (20) Hardees

This District is a redevelopment district authorized by Minnesota Statutes section 469.174-469.178 and established in 1990. The duration of the District is 25 years.

	2015	2014
Original net tax capacity	\$ 1,203	\$ 1,203
Current net tax capacity	10,992	--
Captured gross tax capacity:		
Retained by authority	9,789	--
Shared with other taxing district	--	--
Total bonds issued	--	--
Total loans issued	154,145	154,145
Total bonds redeemed (principal only)	154,145	154,145
 Total outstanding bonds and loans	 \$ --	 \$ --

2. Development District No. 1-11 (29) Golden Horizon

This District is a housing district authorized by Minnesota Statutes section 469-174 subd. 11 and established September 11, 2002. The duration of the District is 25 years.

	2015	2014
Original net tax capacity	\$ 373	\$ 373
Current net tax capacity	22,559	--
Captured gross tax capacity:		
Retained by authority	22,186	--
Total bonds issued	180,000	180,000
G.O. tax increment bonds	180,000	180,000
Total loans issued	--	--
Total bonds redeemed (principal only)	--	--

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

NOTE 3.: DETAILED NOTES ON ALL FUNDS (Continued)

H. Tax Increment Financing (Continued)

3. Development District No. 1-12 (30) Pine City Bottle Cap Condos

This District is a redevelopment district authorized by Minnesota Statutes section 469.174-469-178 and established in 2002. The duration of the District is 25 years.

	2015	2014
Original net tax capacity	\$ 3,405	\$ 3,405
Current net tax capacity	19,909	20,444
Captured gross tax capacity:		
Retained by authority	16,505	17,039

4. Development District No. 2-1 (31) DMC

This District is a housing district authorized by Minnesota Statutes section 469-174 subd. 11 and established in 2005. The duration of the District is 25 years.

	2015	2014
Original net tax capacity	\$ 883	\$ 883
Current net tax capacity	15,804	15,804
Captured gross tax capacity:		
Retained by authority	14,921	14,921

I. Contingencies and Commitments

In connection with the normal conduct of its affairs, the City is involved in various claims or litigations. It is the opinion of the City attorney that the final settlement of these matters will not materially affect the financial statements of the City.

The City participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

J. Risk Management - Claims and Judgments

Significant losses are covered by commercial insurance for all major programs. These programs are life, health, property and liability, workers' compensation, unemployment, and disability. For insured programs there have been no significant reductions in insurance coverage. Settlement amounts, if any, have not exceeded insurance coverage for the current year or the three prior years.

K. Excess of Expenditures over Appropriations

Expenditures exceeded appropriations in certain individual funds for the year ended December 31, 2015, as follows:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Over</u>
General Fund	1,813,104	1,749,975	63,129

Other funds did not include a budget for the year, therefore, not included.

L. Deficit Fund Balances

The following funds had deficit fund balances as of December 31, 2015:

	<u>Amount</u>
Capital Project:	
2009 Street Reconstruction	(259,309)

M. 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 Ogilvie 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 Pine City, Minnesota
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

M. Defined Benefit Pension Plan - Statewide (Continued)

1. Plan Description (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 Pine City 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 Pine City's contributions to the GERF for the year ended December 31, 2015, were \$53,492. The City of Pine City's contributions were equal to the required contributions as set by state statute.

3. Pensions Costs

At December 31, 2015, the City of Pine City reported a liability of \$637,477 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 Pine City's proportion of the net pension liability was based on the City of Pine City'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 Pine City's proportion share was 0.0123% which was an increase/decrease of 0.0027% from its proportion measured as of June 30, 2014.

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

M. Defined Benefit Pension Plan - Statewide (Continued)

3. Pension Costs (Continued)

For the year ended December 31, 2015, the City of Pine City recognized pension expense of \$53,262 for its proportionate share of the GERS's pension expense.

At December 31, 2015, the City of Pine City reported its proportionate share of the GERS'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	6,852	32,138
Changes in actuarial assumptions	--	95,124
Difference between projected and actual investments earnings	--	--
Contribution paid to PERA subsequent to the measurement date	--	--
Total	\$ 6,852	\$ 127,262

\$6,852 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	(38,491)
2017	(38,491)
2018	(38,490)
2019	1,644
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 GERS.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERS 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 PECS, but assumptions are reviewed annually.

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

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

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

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)
 M. 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:	\$1,002,298	\$637,477	\$336,142

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.

8. Pine City Firefighters Relief Association

Plan Description

Members of the Pine City Volunteer Fire Department are covered by a lump sum pension benefit or defined contribution plan. The Association administers this lump sum pension. Since this is a volunteer fire department, no salaries are involved.

All active volunteer firemen are covered. Minimum requirements for service pension are retirement age 50, an active member of the volunteer fire department for 20 years and an active member of the Association for 19 years. Minnesota state law controls the amount of pension and the handling and disbursement of these funds.

Related Party Transactions

During 2015, and as of December 31, 2015, the Association held no securities by the City or other related parties.

Contributions

The total lump sum benefit for the 55 members as of January 1, 2015 was \$1,108,276. Pension assets totaled \$1,095,898 at January 1, 2016, leaving no current unfunded amount as determined by actuarial assessment from 2015. Members do not contribute to the plan. Funding comes from 2% state aid, municipal contributions, and interest earnings on investments.

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

NOTE 4: GASB 54 FUND BALANCE REPORTING

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

- I. The City has adopted a Fund Balance Policy effective December 7, 2011. The purpose of this policy is to establish specific guidelines the City of Pine City will use to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

The purpose of this policy is to also establish specific guidelines the City of Pine City will use to classify fund balances into categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

II. Classification of Fund Balance/Procedures

1. **Nonspendable:** This category includes fund balance that cannot be spent because it is either (i) not in spendable form or (ii) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.
2. **Restricted:** Fund balance should be reported as restricted when constraints placed on those resources are either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.

3. **Committed:**

Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.

The City's highest level of decision-making authority (City Council) will annually, or as deemed necessary, commit specific revenue sources for specified purposes by resolution. This formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint, may be determined in the subsequent period.

To remove the constraint on specified use of the committed resources, the City Council shall pass a resolution.

4. **Assigned:** Amounts that are constrained by the government's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General Fund includes amounts that are intended to be used for specific purposes.

The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Administrator and/or City Treasurer.

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

NOTE 4: GASB 54 FUND BALANCE REPORTING (continued)

5. **Unassigned:** Unassigned fund balance represents the residual classification for the General Fund. It includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

The City will maintain an unrestricted fund balance in the General Fund of an amount not less than 31% of the next year's budgeted expenditures of the General Fund. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

III. Stabilization Arrangements

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

The City will set aside amounts by resolution as deemed necessary that can only be expended when certain specific circumstances exist. The resolution will identify and describe the specific circumstances under which a need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

IV. Monitoring and Reporting

The City Administrator and City Treasurer shall annually prepare the status of fund balances in relation to this policy and present them to the City Council in conjunction with the development of the annual budget.

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

When committed, assigned, or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed, 2) assigned, and 3) unassigned.

A negative residual amount may not be reported for restricted, committed, or assigned fund balances in the General Fund.

The provisions of this policy include the provisions of Statement No. 54 of the Governmental Accounting Standards Board (GASB).

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

NOTE 5: PRIOR PERIOD ADJUSTMENT

The beginning net position of the governmental activities has been decreased to reflect a change in accounting principal. The City of Pine City implemented GASB 68, Accounting and Financial reporting for Pensions which record the City of Pine City's proportionate share of the collective net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense on the City of Pine City's government-wide financial statements. Beginning governmental activities net position had been restated from \$9,406,529 to \$8,701,904 (a decrease of \$704,625). Prior year comparative information does not reflect this change in accounting principle because the cost-sharing multiple-employer defined benefit plans in which the City of Pine City participates have not provided this information to the City.

During the year of 2015, the City of Pine City also reclassified a variety of assets to assist in improved reporting.

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City of Pine City, Minnesota
REQUIRED SUPPLEMENTARY INFORMATION OTHER
THAN MANAGEMENT'S DISCUSSION AND
ANALYSIS (UNAUDITED)
December 31, 2015

City of Pine City, Minnesota
 Required Supplementary Information
Schedule of City's Proportionate Share of Net Pension Liability and City's Contributions
 PERA General Employees Retirement Fund
 December 31, 2015

Schedule of City's Proportionate Share of Net Pension Liability

Fiscal Year Ending December 31,	Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Assets) (a)	Covered Employee Payroll (b)	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position of the Total Pension Liability
2015	0.0123%	\$ 637,450	\$ 821,238	77.6%	78.7%

Note: This schedule is intended to report ten-year trends. Additional years will be reported when they are available.

Schedule of City's Contributions

Fiscal Year Ending December 31,	Statutory Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Employee Payroll (b/d)
2015	\$ 53,492	\$ 53,492	--	\$ 821,238	6.51%

Note: This schedule is intended to report ten-year trends. Additional years will be reported when they are available.

City of Pine City, Minnesota
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES
December 31, 2015

City of Pine City, Minnesota
NONMAJOR GOVERNMENTAL FUNDS
Combining Balance Sheet
December 31, 2015

	Special Revenue Funds				
	601	800	810	820	825
	Cemetery Maintenance Fund	EDA Basic Fund	Hardee's TIF District 1-1 Fund	Minnesota RLF Fund	Revolving Loan Fund
ASSETS					
Cash and cash equivalents	\$ 185,183	\$ 119,128	\$ 53,841	\$ 29,316	\$ 434,359
Delinquent taxes receivable	--	--	--	--	--
Due from other gov't unit	--	--	--	--	--
Accounts receivable	138	2,747	35	11	163
Due from other funds	--	8,345	--	--	--
Loan receivable	--	--	--	44,516	18,302
Delinquent special assessments	--	--	--	--	--
Deferred special assessments	--	--	--	--	--
TOTAL ASSETS	\$ 185,321	\$ 130,220	\$ 53,876	\$ 73,843	\$ 452,824
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 30	\$ 1,299	\$ --	\$ --	\$ --
Due to other funds	--	--	--	--	--
Loan payable	--	--	--	47,737	--
Deferred revenue	8	--	--	--	--
Total Liabilities	38	1,299	--	47,737	--
Fund Balances:					
Restricted	--	--	53,876	26,106	--
Committed	--	--	--	--	225,000
Assigned	185,283	128,921	--	--	227,824
Unassigned	--	--	--	--	--
Total Fund Balances	185,283	128,921	53,876	26,106	452,824
TOTAL LIABILITIES AND FUND BALANCE	\$ 185,321	\$ 130,220	\$ 53,876	\$ 73,843	\$ 452,824

Special Revenue Totals	Capital Project Funds					Capital Projects Totals
	305 Capital Improvement Fund	328 2009 Street Reconstruction Fund	355 Fire Hall Construction Fund	855 DMC Company TIF Fund	868 Pine City Bottle Cap Condos Fund	
\$ 821,827	\$ 259,117	\$ --	\$ --	\$ 16,602	\$ 20,939	\$ 296,658
--	--	--	--	--	1,859	1,859
--	--	--	--	--	--	--
3,094	535	--	500	14	15	1,064
8,345	259,809	--	--	--	--	259,809
62,818	--	--	--	--	--	--
--	--	--	--	--	--	--
--	47,812	--	--	--	--	47,812
<u>\$ 896,084</u>	<u>\$ 567,273</u>	<u>\$ --</u>	<u>\$ 500</u>	<u>\$ 16,616</u>	<u>\$ 22,813</u>	<u>\$ 607,202</u>
1,329	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
--	--	259,309	500	--	--	259,809
47,737	--	--	--	--	--	--
8	47,812	--	--	--	1,859	49,671
<u>49,074</u>	<u>47,812</u>	<u>259,309</u>	<u>500</u>	<u>--</u>	<u>1,859</u>	<u>309,480</u>
79,982	--	--	--	--	--	--
225,000	200,000	--	--	--	--	200,000
542,028	319,461	--	--	16,616	20,954	357,031
--	--	(259,309)	--	--	--	(259,309)
<u>847,010</u>	<u>519,461</u>	<u>(259,309)</u>	<u>--</u>	<u>16,616</u>	<u>20,954</u>	<u>297,722</u>
<u>\$ 896,084</u>	<u>\$ 567,273</u>	<u>\$ --</u>	<u>\$ 500</u>	<u>\$ 16,616</u>	<u>\$ 22,813</u>	<u>\$ 607,202</u>

City of Pine City, Minnesota
NONMAJOR GOVERNMENTAL FUNDS
Combining Balance Sheet
December 31, 2015

	Debt Service				
	407 \$1,115,000 Refunding Bond Fund	408 2008B GO Refunding Bond	410 2010A GO Refunding Bond	411 2011A GO Refunding Bond	412 2012A Cross Over Refunding Bond
ASSETS					
Cash and cash equivalents	\$ 316,286	\$ 163,237	\$ 210,418	\$ 16,060	\$ 152,754
Delinquent taxes receivable	--	--	--	--	--
Due from other gov't unit	--	--	--	--	--
Accounts receivable	634	56	69	6	22
Due from other funds	--	--	--	--	--
Loan receivable	--	--	--	--	--
Delinquent special assessments	--	2,977	1,044	--	1,433
Deferred special assessments	--	44,083	330,724	--	48,526
TOTAL ASSETS	\$ 316,920	\$ 210,353	\$ 542,255	\$ 16,066	\$ 202,735
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ --	\$ --	\$ --	\$ --	\$ --
Due to other funds	--	--	--	--	--
Loan payable	--	--	--	--	--
Unearned revenue	--	45,900	330,723	--	49,885
Total liabilities	--	45,900	330,723	--	49,885
Fund Balances:					
Restricted	316,920	164,453	211,532	16,066	152,850
Committed	--	--	--	--	--
Assigned	--	--	--	--	--
Unassigned	--	--	--	--	--
Total Fund Balances	316,920	164,453	211,532	16,066	152,850
TOTAL LIABILITIES AND FUND BALANCE	\$ 316,920	\$ 210,353	\$ 542,255	\$ 16,066	\$ 202,735

Debt Service				
413 2013B GO Taxable Bond	460 2015A GO Improvement Bond	866 2003 GO TIF Bond	Debt Service Total	Non-Major Governmental Fund Totals
\$ 109,545	\$ 9,291	\$ 16,641	\$ 994,232	\$ 2,112,717
--	--	--	--	1,859
--	--	--	--	--
36	4	9,919	10,746	14,904
--	--	--	--	268,154
--	--	--	--	62,818
1,232	--	--	6,686	6,686
264,053	--	--	687,386	735,198
<u>\$ 374,866</u>	<u>\$ 9,295</u>	<u>\$ 26,560</u>	<u>\$ 1,699,050</u>	<u>\$ 3,202,336</u>
\$ --	\$ --	\$ --	\$ --	\$ 1,329
--	--	8,345	8,345	268,154
--	--	--	--	47,737
264,598	--	--	691,106	740,785
<u>264,598</u>	<u>--</u>	<u>8,345</u>	<u>699,451</u>	<u>1,058,005</u>
110,268	9,295	18,215	999,599	1,079,581
--	--	--	--	425,000
--	--	--	--	899,059
--	--	--	--	(259,309)
<u>110,268</u>	<u>9,295</u>	<u>18,215</u>	<u>999,599</u>	<u>2,144,331</u>
<u>\$ 374,866</u>	<u>\$ 9,295</u>	<u>\$ 26,560</u>	<u>\$ 1,699,050</u>	<u>\$ 3,202,336</u>

City of Pine City, Minnesota
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2015

	Special Revenues Funds				
	601	800	810	820	825
	Cemetery Maintenance Fund	EDA Basic Fund	Hardee's TIF District 1-1 Fund	Minnesota RLF Fund	Revolving Loan Fund
Revenues:					
General property taxes	\$ --	\$ 32,949	\$ --	\$ --	\$ --
Tax increments	--	--	14,749	--	--
Special assessments	--	--	--	--	--
Intergovernmental revenues	--	--	--	--	--
Charges for services	17,550	100	--	--	--
Interest earned	4,737	3,121	132	1,477	822
Refunds and reimbursements	83	2,494	--	--	--
Miscellaneous	--	700	--	--	2,661
Total Revenues	<u>22,370</u>	<u>39,364</u>	<u>14,881</u>	<u>1,477</u>	<u>3,483</u>
Expenditures:					
Cemetery	20,614	--	--	--	--
Miscellaneous	--	84	1,010	--	--
TIF -EDA	--	33,069	--	--	--
Capital outlay	--	--	--	--	--
Refunds and reimbursements	--	--	--	--	--
Debt service:					
Principal	--	--	--	--	--
Interest	--	--	--	--	--
Total Expenditures	<u>20,614</u>	<u>33,153</u>	<u>1,010</u>	<u>--</u>	<u>--</u>
Excess (Deficit) of Revenues over (under) Expenditures	1,756	6,211	13,871	1,477	3,483
Other Financing Sources (Uses):					
Refunding bonds issued	--	--	--	--	--
Transfers in	--	--	--	24,629	449,341
Transfers out	--	(473,970)	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>(473,970)</u>	<u>--</u>	<u>24,629</u>	<u>449,341</u>
Net Changes in Fund Balances	1,756	(467,759)	13,871	26,106	452,824
Fund Balances - Beginning	<u>183,527</u>	<u>596,680</u>	<u>40,005</u>	<u>--</u>	<u>--</u>
Fund Balances - Ending	<u>\$ 185,283</u>	<u>\$ 128,921</u>	<u>\$ 53,876</u>	<u>\$ 26,106</u>	<u>\$ 452,824</u>

Capital Project Funds						
Special Revenue Totals	305 Capital Improvement Fund	328 2009 Street Reconstruction Fund	355 Fire Hall Construction Fund	855 DMC Company TIF Fund	868 Pine City Bottle Cap Condos Fund	Capital Project Totals
\$ 32,949	\$ 86,000	\$ --	\$ --	\$ --	\$ --	\$ 86,000
14,749	--	--	--	15,563	15,298	30,861
--	--	--	--	--	--	--
--	--	--	--	--	--	--
17,650	--	--	--	--	--	--
10,289	7,878	--	--	59	78	8,015
2,577	110,602	--	--	--	--	110,602
3,361	6,000	--	--	--	--	6,000
<u>81,575</u>	<u>210,480</u>	<u>--</u>	<u>--</u>	<u>15,622</u>	<u>15,376</u>	<u>241,478</u>
20,614	--	--	--	--	--	--
1,094	11,704	--	--	1,010	1,010	13,724
33,069	--	--	--	7,159	7,097	14,256
--	180,587	--	--	--	--	180,587
--	--	--	--	--	--	--
--	--	--	--	--	--	--
--	--	--	--	--	--	--
<u>54,777</u>	<u>192,291</u>	<u>--</u>	<u>--</u>	<u>8,169</u>	<u>8,107</u>	<u>208,567</u>
26,798	18,189	--	--	7,453	7,269	32,911
--	--	--	--	--	--	--
473,970	--	--	--	--	--	--
(473,970)	--	--	--	--	--	--
--	--	--	--	--	--	--
26,798	18,189	--	--	7,453	7,269	32,911
820,212	501,272	(259,309)	--	9,163	13,685	264,811
<u>\$ 847,010</u>	<u>\$ 519,461</u>	<u>\$ (259,309)</u>	<u>\$ --</u>	<u>\$ 16,616</u>	<u>\$ 20,954</u>	<u>297,722</u>

City of Pine City, Minnesota
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2015

	Debt Service Funds				
	407 \$1,115,000 Refunding Bond Fund	408 2008B GO Refunding Bond	410 2010A GO Refunding Bond	411 2011A GO Refunding Bond	412 2012A Cross Over Refunding Bond
Revenues:					
General property taxes	\$ --	\$ 29,663	\$ 141,288	\$ 121,555	\$ 25,000
Tax increments	--	--	--	--	--
Special assessments	--	49,089	107,743	--	15,570
Intergovernmental revenues	--	--	--	--	--
Charges for services	--	166	527	301	196
Interest earned	638	--	--	--	--
Refunds and reimbursements	--	--	--	--	--
Miscellaneous	--	--	--	--	--
Total Revenues	<u>638</u>	<u>78,918</u>	<u>249,558</u>	<u>121,856</u>	<u>40,766</u>
Expenditures:					
Cemetery	--	--	--	--	--
Miscellaneous	3	236	722	203	433
TIF - EDA	--	--	--	--	--
Capital outlay	--	--	--	--	--
Refunds and reimbursements	--	--	--	--	--
Debt service:					
Principal	--	130,000	230,000	70,000	65,000
Interest and other charges	--	14,590	35,765	51,305	13,006
Total Expenditures	<u>3</u>	<u>144,826</u>	<u>266,487</u>	<u>121,508</u>	<u>78,439</u>
Excess (Deficit) of Revenues over (under) Expenditures	635	(65,908)	(16,929)	348	(37,673)
Other Financing Sources (Uses):					
Refunding bonds issued	--	--	--	--	--
Transfers in	--	230,361	228,461	15,718	190,523
Transfers out	(932,555)	--	--	--	--
Total Other Financing Sources (Uses)	<u>(932,555)</u>	<u>230,361</u>	<u>228,461</u>	<u>15,718</u>	<u>190,523</u>
Net Changes in Fund Balances	(931,920)	164,453	211,532	16,066	152,850
Fund Balances - Beginning	<u>1,248,840</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances - Ending	<u>\$ 316,920</u>	<u>\$ 164,453</u>	<u>\$ 211,532</u>	<u>\$ 16,066</u>	<u>\$ 152,850</u>

Debt Service Funds				
413 2013B GO Taxable Bond	460 2015A GO Improvement Bond	866 2003 GO TIF Bond	Debt Service Total	Non-Major Governmental Fund Totals
\$ 4,655	\$ --	\$ --	\$ 322,161	\$ 441,110
--	--	24,057	24,057	69,667
49,079	--	--	221,481	221,481
--	--	--	--	--
--	--	--	1,190	18,840
131	4	20	793	19,097
--	--	3,903	3,903	117,082
--	--	204,000	204,000	213,361
<u>53,865</u>	<u>4</u>	<u>231,980</u>	<u>777,585</u>	<u>1,100,638</u>
--	--	--	--	20,614
241	20,955	1,213	24,006	38,824
--	--	--	--	47,325
--	--	--	--	180,587
--	--	--	--	--
21,000	--	210,000	726,000	726,000
<u>19,740</u>	<u>20,782</u>	<u>9,513</u>	<u>164,701</u>	<u>164,701</u>
<u>40,981</u>	<u>41,737</u>	<u>220,726</u>	<u>914,707</u>	<u>1,178,051</u>
12,884	(41,733)	11,254	(137,122)	(77,413)
--	51,028	--	51,028	51,028
97,384	--	--	762,447	1,236,417
--	--	--	(932,555)	(1,406,525)
<u>97,384</u>	<u>51,028</u>	<u>--</u>	<u>(119,080)</u>	<u>(119,080)</u>
110,268	9,295	11,254	(256,202)	(196,493)
--	--	6,961	1,255,801	2,340,824
<u>\$ 110,268</u>	<u>\$ 9,295</u>	<u>\$ 18,215</u>	<u>\$ 999,599</u>	<u>\$ 2,144,331</u>

City of Pine City, Minnesota
SUPPLEMENTARY INFORMATION
December 31, 2015

City of Pine City, Minnesota
\$320,000 GO Water and Sewer Revenue Bonds, 2006A
For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	<u>\$ 50,000</u>	<u>\$ 1,050</u>	<u>\$ 51,050</u>
Total	<u><u>\$ 50,000</u></u>	<u><u>\$ 1,050</u></u>	<u><u>\$ 51,050</u></u>

City of Pine City, Minnesota
\$915,000 GO Improvement Bonds, 2008A
For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 55,000	\$ 1,045	\$ 56,045
Total	<u>\$ 55,000</u>	<u>\$ 1,045</u>	<u>\$ 56,045</u>

City of Pine City, Minnesota
\$1,115,000 GO Refunding Bonds, 2008B
For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 140,000	\$ 6,060	\$ 146,060
2016	--	3,400	3,400
2017	145,000	3,400	148,400
2017	--	500	500
2018	<u>25,000</u>	<u>500</u>	<u>25,500</u>
Total	<u>\$ 310,000</u>	<u>\$ 13,860</u>	<u>\$ 323,860</u>

City of Pine City, Minnesota
GO Refunding Bonds, 2010A
For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 225,000	\$ 16,733	\$ 241,733
2016	--	14,032	14,032
2017	230,000	14,032	244,032
2017	--	10,870	10,870
2018	220,000	10,870	230,870
2018	--	7,570	7,570
2019	230,000	7,570	237,570
2019	--	4,005	4,005
2020	135,000	4,005	139,005
2020	--	1,811	1,811
2021	50,000	1,811	51,811
2021	--	949	949
2022	55,000	949	55,949
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 1,145,000</u>	<u>\$ 95,207</u>	<u>\$ 1,240,207</u>

City of Pine City, Minnesota
 \$2,225,000 GO Tax Increment Refunding Bonds, 2010B
 For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ --	\$ 2,656	\$ 2,656
2016	10,000	2,656	12,656
2017	--	2,444	2,444
2017	10,000	2,444	12,444
2018	--	2,231	2,231
2018	15,000	2,231	17,231
2019	--	1,913	1,913
2019	15,000	1,913	16,913
2020	--	1,594	1,594
2020	15,000	1,594	16,594
2021	--	1,275	1,275
2021	20,000	1,275	21,275
2022	--	850	850
2022	20,000	850	20,850
2023	--	425	425
2023	<u>20,000</u>	<u>425</u>	<u>20,425</u>
Total	<u>\$ 125,000</u>	<u>\$ 26,776</u>	<u>\$ 151,776</u>

City of Pine City, Minnesota
 \$1,650,000 GO Building Bonds, 2011A
 For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ --	\$ 25,040	\$ 25,040
2016	70,000	25,040	95,040
2017	--	24,428	24,428
2017	70,000	24,428	94,428
2018	-	23,623	23,623
2018	75,000	23,623	98,623
2019	--	22,760	22,760
2019	75,000	22,760	97,760
2020	--	21,710	21,710
2020	80,000	21,710	101,710
2021	--	20,590	20,590
2021	80,000	20,590	100,590
2022	--	19,310	19,310
2022	85,000	19,310	104,310
2023	--	17,950	17,950
2023	85,000	17,950	102,950
2024	--	16,462	16,462
2024	90,000	16,462	106,462
2025	--	14,887	14,887
2025	95,000	14,887	109,887
2026	--	13,106	13,106
2026	95,000	13,106	108,106
2027	--	11,325	11,325
2027	100,000	11,325	111,325
2028	--	9,325	9,325
2028	105,000	9,325	114,325
2029	--	7,225	7,225
2029	110,000	7,225	117,225
2030	--	4,887	4,887
2030	115,000	4,887	119,887
2031	--	2,444	2,444
2031	115,000	2,444	117,444
Total	\$ 1,445,000	\$ 510,144	\$ 1,955,144

City of Pine City, Minnesota
 \$7,645,000 GO Crossover Refunding Bonds, 2012A
 For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 545,000	\$ 86,885	\$ 631,885
2016	--	81,435	81,435
2017	545,000	81,435	626,435
2017	--	75,985	75,985
2018	560,000	75,985	635,985
2018	-	70,385	70,385
2019	570,000	70,385	640,385
2019	--	64,685	64,685
2020	590,000	64,685	654,685
2020	--	58,638	58,638
2021	590,000	58,638	648,638
2021	--	52,148	52,148
2022	610,000	52,148	662,148
2022	--	44,980	44,980
2023	635,000	44,980	679,980
2023	--	37,043	37,043
2024	460,000	37,043	497,043
2024	--	30,832	30,832
2025	465,000	30,832	495,832
2025	--	24,206	24,206
2026	485,000	24,206	509,206
2026	--	16,931	16,931
2027	500,000	16,931	516,931
2027	--	9,181	9,181
2028	565,000	9,181	574,181
	<u>565,000</u>	<u>9,181</u>	<u>574,181</u>
Total	<u>\$ 7,120,000</u>	<u>\$ 1,219,783</u>	<u>\$ 8,339,783</u>

City of Pine City, Minnesota
 \$610,000 GO Improvement Crossover Refunding Bonds, 2012B
 For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 10,000	\$ 5,446	\$ 15,446
2016	--	5,386	5,386
2017	70,000	5,386	75,386
2017	--	4,967	4,967
2018	70,000	4,967	74,967
2018	-	4,546	4,546
2019	75,000	4,546	79,546
2019	--	3,928	3,928
2020	70,000	3,928	73,928
2020	--	3,350	3,350
2021	75,000	3,350	78,350
2021	--	2,600	2,600
2022	80,000	2,600	82,600
2022	--	1,800	1,800
2023	75,000	1,800	76,800
2023	--	956	956
2024	85,000	956	85,956
Total	<u><u>\$ 610,000</u></u>	<u><u>\$ 60,512</u></u>	<u><u>\$ 670,512</u></u>

City of Pine City, Minnesota
 \$585,000 GO Taxable Improvement Bonds, 2013B
 For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 22,000	\$ 19,057	\$ 41,057
2017	23,000	18,235	41,235
2018	24,000	17,430	41,430
2019	25,000	16,590	41,590
2020	25,000	15,758	40,758
2021	26,000	14,840	40,840
2022	27,000	13,930	40,930
2023	28,000	12,985	40,985
2024	29,000	12,038	41,038
2025	30,000	10,990	40,990
2026	31,000	9,940	40,940
2027	32,000	8,855	40,855
2028	34,000	7,756	41,756
2029	35,000	6,545	41,545
2030	36,000	5,320	41,320
2031	37,000	4,060	41,060
2032	39,000	2,773	41,773
2033	<u>40,000</u>	<u>1,400</u>	<u>41,400</u>
Total	<u>\$ 543,000</u>	<u>\$ 198,502</u>	<u>\$ 741,502</u>

City of Pine City, Minnesota
 \$1,481,000 GO Taxable Improvement Bonds, 2013A
 For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 22,000	\$ 40,123	\$ 62,123
2017	23,000	39,626	62,626
2018	24,000	38,885	62,885
2019	24,000	38,225	62,225
2020	25,000	37,565	62,565
2021	25,000	36,979	61,979
2022	26,000	36,190	62,190
2023	27,000	35,475	62,475
2024	28,000	34,733	62,733
2025	28,000	34,056	62,056
2026	29,000	33,193	62,193
2027	30,000	32,395	62,395
2028	31,000	31,570	62,570
2029	32,000	30,802	62,802
2030	33,000	29,837	62,837
2031	33,000	28,930	61,930
2032	34,000	28,023	62,023
2033	35,000	27,162	62,162
2034	36,000	26,125	62,125
2035	37,000	25,135	62,135
2036	38,000	24,117	62,117
2037	39,000	23,136	62,136
2038	40,000	22,000	62,000
2039	42,000	20,900	62,900
2040	43,000	19,745	62,745
2041	44,000	18,613	62,613
2042	45,000	17,352	62,352
2043	46,000	16,115	62,115
2044	48,000	14,850	62,850
2045	49,000	13,567	62,567
2046	50,000	12,182	62,182
2047	52,000	10,807	62,807
2048	53,000	9,377	62,377
2049	54,000	7,941	61,941
2050	56,000	6,435	62,435
2051	58,000	4,895	62,895
2052	59,000	3,300	62,300
2053	61,000	1,682	62,682
	<u>61,000</u>	<u>1,682</u>	<u>62,682</u>
Total	<u>\$ 1,459,000</u>	<u>\$ 912,043</u>	<u>\$ 2,371,043</u>

City of Pine City, Minnesota
 \$720,000 GO Improvement Bond, 2015A
 For the Year Ended December 31, 2015

<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ --	\$ 8,828	\$ 8,828
2016	45,000	8,828	53,828
2017	--	8,524	8,524
2017	45,000	8,524	53,524
2018	-	8,220	8,220
2018	45,000	8,220	53,220
2019	--	7,916	7,916
2019	45,000	7,916	52,916
2020	--	7,421	7,421
2020	45,000	7,421	52,421
2021	--	6,926	6,926
2021	45,000	6,926	51,926
2022	--	6,432	6,432
2022	45,000	6,432	51,432
2023	--	5,936	5,936
2023	45,000	5,936	50,936
2024	--	5,318	5,318
2024	50,000	5,318	55,318
2025	--	4,630	4,630
2025	50,000	4,630	54,630
2026	--	3,942	3,942
2026	50,000	3,942	53,942
2027		3,255	3,255
2027	50,000	3,255	53,255
2028		2,480	2,480
2028	50,000	2,480	52,480
2029		1,705	1,705
2029	55,000	1,705	56,705
2030	--	853	853
2030	55,000	853	55,853
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 720,000</u>	<u>\$ 164,771</u>	<u>\$ 884,771</u>

City of Pine City, Minnesota
 DEVELOPMENT DISTRICT NO. 1-1(20) - HARDEES
 Schedule of Sources and Uses of Public Funds
 A Tax Increment Finance District within Development District No. 1
 December 31, 2015

	Original TIF Plan Budget Amount	Cumulative Modified TIF Plan Budget Amount	Accounted for in Prior Year Amount	2015 Current Year Amount
Revenues and Other Financing Sources:				
General property tax	\$ --	\$ --	\$ 2,685	\$ --
Tax increments	--	--	323,606	14,749
Interest earned	--	--	233,940	132
Bond proceeds	--	--	191,710	--
Loan proceeds	163,897	163,897	--	--
Special assessments	--	--	12,319	--
Grants	--	--	420,801	--
Other	--	--	38,662	--
Transfers in	--	--	2,350	--
Total Revenues and Other Financing Sources	<u>163,897</u>	<u>163,897</u>	<u>1,226,073</u>	<u>14,881</u>
Expenditures and Other Financing Uses:				
Utilities and street improvements	135,897	135,897	586,847	--
Administrative costs	10,000	10,000	36,003	1,010
Bond principal payments	--	--	270,855	--
Interest on bonds	18,000	18,000	88,994	--
Returns to county auditor	--	--	104,336	--
Refunds	--	--	85,172	--
Transfers out	--	--	249,419	--
Total Expenditures and Other Financing Uses	<u>163,897</u>	<u>163,897</u>	<u>1,421,626</u>	<u>1,010</u>
Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (195,553)</u>	<u>\$ 13,871</u>

City of Pine City, Minnesota
 DEVELOPMENT DISTRICT NO. 2-1 - DMC COMPANY
 Schedule of Sources and Uses of Public Funds
 December 31, 2015

	Original TIF Plan Budget Amount	Cumulative Modified TIF Plan Budget Amount	Accounted for in Prior Year Amount	2015 Current Year Amount
Revenues and Other Financing Sources:				
Tax increments	\$ 418,960	\$ 418,960	\$ 127,731	\$ 15,563
Interest earned	--	--	183	59
Developer deposits	8,000	8,000	8,000	--
Total Revenues and Other Financing Sources	<u>426,960</u>	<u>426,960</u>	<u>135,914</u>	<u>15,622</u>
Expenditures and Other Financing Uses:				
Land/building acquisitions	203,743	203,743	--	--
Site improvement costs/preparation costs	--	--	--	--
TIF disbursements to developer	--	--	114,958	7,159
Interest expenses	181,337	181,337	--	--
Administrative expenses	41,880	41,880	11,793	1,010
Total Expenditures and Other Financing Uses	<u>426,960</u>	<u>426,960</u>	<u>126,751</u>	<u>8,169</u>
Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 9,163</u>	<u>\$ 7,453</u>

The City does not intend to issue tax increment bonds to finance the above public costs. Rather, the City intends to finance said costs on a pay-as-you-go basis, including the payment of interest thereon via a tax increment revenue note.

City of Pine City, Minnesota
REDEVELOPMENT DISTRICT NO. 1-12 - PINE CITY BOTTLE CAP CONDOS
Schedule of Sources and Uses of Public Funds
December 31, 2015

	Original TIF Plan Budget Amount	Cumulative Modified TIF Plan Budget Amount	Accounted for in Prior Year Amount	2015 Current Year Amount
Revenues and Other Financing Sources:				
Tax increments	\$ 409,146	\$ 409,146	\$ 174,918	\$ 15,298
Developer deposits	8,000	8,000	8,000	--
Interest earned	--	--	869	78
Transfer in	--	--	1	--
Total Revenues and Other Financing Sources	417,146	417,146	183,788	15,376
Expenditures and Other Financing Uses:				
Site improvements costs/ preparation costs	192,812	192,812	--	--
Interest expenses	167,188	167,188	--	--
Administrative expenses	40,928	40,928	13,578	1,010
Returns to developer	--	--	441	--
TIF disbursements to developer	--	--	159,589	7,097
Other	--	--	96	--
Returns to county auditor	16,218	16,218	--	--
Total Expenditures and Other Financing Uses	417,146	417,146	173,704	8,107
Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$ --	\$ --	\$ 10,084	\$ 7,269

The City does not intend to issue tax increment bonds to finance the above public costs. Rather, the City intends to finance said costs on a pay-as-you-go basis, including the payment of interest thereon via a tax increment revenue note.

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

Honorable Mayor and Common Council
City of Pine City, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of the Legal Compliance Audit Guide, promulgated by the legal compliance task force pursuant to Minnesota Statutes Sec. 6.65, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pine City, 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 Pine City, Minnesota's basic financial statements, and have issued our report thereon dated May 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pine City, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pine City, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pine City, Minnesota's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Pine City, Minnesota's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and the *Minnesota Legal Compliance Audit Guide* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Sec. 6.65.

The *Legal Compliance Audit Guide* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous items. Our audit considered all of the listed categories. In connection with our audit, nothing came to our attention that caused us to believe that City of Pine City, Minnesota failed to comply with the provisions of the Minnesota Legal Compliance Audit Guide for Cities. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Pine City, Minnesota's noncompliance with the above referenced provisions.

Purpose of this Report

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



Althoff and Nordquist, LLC
Pine City, Minnesota 55063
May 11, 2016

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