

3rd Quarter Report

City of Pine City
Pine City, Minnesota

As of September 30, 2016



AEM Financial Solutions™

People
+ Process®
Going
Beyond the
Numbers



October 28, 2016

ACCOUNTANT'S COMPILATION REPORT

Honorable Mayor and City Council
City of Pine City
Pine City, Minnesota

Management is responsible for the accompanying financial statements of the City of Pine City, MN, which comprise the budget to actual statement of revenues and expenditures for the General fund and statements of revenues and expenses for the Water, Sewer, and Liquor funds as of September 30, 2016, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or the completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures and the statement of cash flows were included in the financial statements, they might influence the user's conclusions about the City's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Sincerely,

AEM FINANCIAL SOLUTIONS, LLC
Minneapolis, Minnesota



AEM Financial Solutions™

October 28, 2016

Honorable Mayor and City Council
 City of Pine City
 Pine City, Minnesota

Dear Honorable Mayor and City Council:

We have reconciled all bank accounts through September 30, 2016 and reviewed activity in all funds. The following is a summary of our observations. All information presented is unaudited.

Cash and Investments

The City’s cash and investment balances are as follows:

	<u>09/30/2016</u>	<u>12/31/2015</u>	<u>Increase/ (Decrease)</u>
Checking	\$ 2,360,749	\$ 439,656	\$ 1,921,093
Investments (at market value)	<u>4,695,352</u>	<u>6,631,012</u>	<u>(1,935,660)</u>
 Total cash and investments	 <u><u>\$ 7,056,101</u></u>	 <u><u>\$ 7,070,668</u></u>	 <u><u>\$ (14,567)</u></u>
 <u>Investment Type</u>	 <u>09/30/2016</u>	 <u>12/31/2015</u>	 <u>Increase/ (Decrease)</u>
Checking	\$ 2,360,749	\$ 439,656	\$ 1,921,093
Money Market	2,468,179	4,465,716	(1,997,537)
Negotiable CDs	2,227,173	1,965,200	261,973
Government agency securities	<u>-</u>	<u>200,096</u>	<u>(200,096)</u>
 Total investments	 <u><u>\$ 7,056,101</u></u>	 <u><u>\$ 7,070,668</u></u>	 <u><u>\$ (14,567)</u></u>

Current short-term rates being offered by financial institutions are very low as evidenced by the table of U.S. Treasury rates below. The U.S. Treasury rates provide a benchmark perspective for rate of return.

Date	Treasury Yields								
	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr
12/31/2010	0.07	0.12	0.19	0.29	0.61	1.02	2.01	2.71	3.30
12/30/2011	0.01	0.02	0.06	0.12	0.25	0.36	0.83	1.35	1.89
12/31/2012	0.02	0.05	0.11	0.16	0.25	0.36	0.72	1.18	1.78
03/31/2013	0.04	0.07	0.11	0.14	0.25	0.36	0.77	1.24	1.87
06/30/2013	0.02	0.04	0.10	0.15	0.36	0.66	1.41	1.96	2.52
09/30/2013	0.03	0.02	0.04	0.10	0.33	0.63	1.39	2.02	2.64
12/31/2013	0.01	0.07	0.10	0.13	0.38	0.78	1.75	2.45	3.04
03/31/2014	0.03	0.05	0.07	0.13	0.44	0.90	1.73	2.30	2.73
06/30/2014	0.02	0.04	0.07	0.11	0.47	0.88	1.62	2.13	2.53
09/30/2014	0.02	0.02	0.03	0.13	0.58	1.07	1.78	2.22	2.52
12/31/2014	0.03	0.03	0.12	0.23	0.69	1.11	1.68	2.00	2.20
03/31/2015	0.05	0.03	0.14	0.26	0.56	0.89	1.37	1.71	1.94
06/30/2015	0.02	0.01	0.11	0.28	0.64	1.01	1.63	2.07	2.35
09/30/2015	-	-	0.08	0.33	0.64	0.92	1.37	1.75	2.06
12/31/2015	0.14	0.16	0.49	0.65	1.06	1.31	1.76	2.09	2.27
03/31/2016	0.18	0.21	0.39	0.59	0.73	0.87	1.21	1.54	1.78
06/30/2016	0.20	0.26	0.36	0.45	0.58	0.71	1.01	1.29	1.49
9/30/2016	0.20	0.29	0.45	0.59	0.77	0.88	1.14	1.42	1.60

Budget Summary

A more detailed analysis of funds is included as Attachment A.

Cash Balance Summary

A detailed view of department totals compared with budget is included as Attachment B.

Investment Summary

A detailed summary of current investments is included as Attachment C.

Enterprise Fund Summary

A detailed summary of enterprise fund financial results is included as Attachment D.

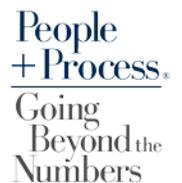
* * * * *

This information is unaudited and is intended solely for the information and use of management and City Council and is not intended and should not be used by anyone other than these specified parties.

If you have any questions or wish to discuss any of the items contained in this letter or the attachments, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

Sincerely,

AEM FINANCIAL SOLUTIONS, LLC
 Minneapolis, Minnesota



CITY OF PINE CITY, MINNESOTA
 STATEMENT OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL -
 GENERAL FUND (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

Attachment A

	Annual Budget	Budget thru 09/30/2016	Actual Thru 09/30/2016	Variance - Favorable (Unfavorable)	Percent Received or Expended Based on Budget thru 09/30/2016
REVENUES					
Taxes	\$ 667,228	\$ 500,421	\$ 346,189	\$ (154,232) (1)	69.2 %
Intergovernmental	626,167	469,625	345,936	(123,689) (2)	73.7
Licenses and permits	60,452	45,339	47,137	1,798	104.0
Charges for services	333,083	249,812	277,457	27,645	111.1
Fines and Forfeits	11,000	8,250	2,392	(5,858)	29.0
Interest Earned	2,000	1,500	5,043	3,543	336.2
Refunds and Reimbursements	12,775	9,581	23,456	13,875	244.8
Grants	-	-	34,237	34,237 (3)	N/A
Miscellaneous revenue	13,000	9,750	8,250	(1,500)	84.6
TOTAL REVENUES	1,725,705	1,294,279	1,090,097	(204,182)	84.2
EXPENDITURES					
City Council	28,365	21,274	18,961	2,313	89.1
City Administration	319,391	239,543	230,802	8,741	96.4
Elections	4,280	3,210	1,593	1,617	49.6
City Treasurer	99,974	74,981	77,052	(2,072)	102.8
City Assessor	15,417	11,563	17,260	(5,697)	149.3
Planning	89,118	66,839	62,797	4,042	94.0
Building Inspection	102,356	76,767	54,955	21,812 (4)	71.6
Legal	15,000	11,250	9,625	1,625	85.6
Police Protection	166,988	125,241	125,241	-	100.0
Fire Protection	354,749	266,062	174,526	91,536 (5)	65.6
Street Department	455,815	341,861	313,800	28,061	91.8
Capital Outlay	-	-	-	-	N/A
Parks and Playgrounds	97,950	73,463	57,262	16,201	77.9
Swimming Beach	56,500	42,375	48,536	(6,161)	114.5
Recreation/Education Social	26,100	19,575	27,060	(7,485)	138.2
Miscellaneous	-	-	21,793	(21,793) (3)	N/A
TOTAL EXPENDITURES	1,832,003	1,374,002	1,241,263	132,739	90.3
EXCESS REVENUES (EXPENDITURES)	(106,298)	(79,724)	(151,166)	(71,443)	189.6
OTHER FINANCING USES					
Transfers in	125,000	93,750	93,750.0	-	100.0
Transfers Out	-	-	-	-	N/A
TOTAL OTHER FINANCING SOURCES (USES)	125,000	93,750	93,750	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES					
	\$ 18,702	\$ 14,027	\$ (57,416)	\$ (71,443)	(409.3) %

Item Explanation of items for which percentage received/expended less than 80% or greater than 120% and \$ variance greater than \$15,000.

- (1) Negative variance due to second-half tax settlement not due till December.
- (2) Negative variance due to second-half LGA not due till December.
- (3) Variance due to pass-through grants; revenue for Grants and expenditure for Miscellaneous (from where pass-throughs have been paid) categories comparable.
- (4) Variance due to proposed building inspector not being hired. Budgeted wages of \$23,000 attributable to that position.
- (5) Positive variance due to fire relief pension contribution and State fire aid payment not being made till Q3.

CITY OF PINE CITY, MINNESOTA
 UNAUDITED CASH BALANCES BY FUND
 SEPTEMBER 30, 2015, DECEMBER 31, 2015 AND SEPTEMBER 30, 2016

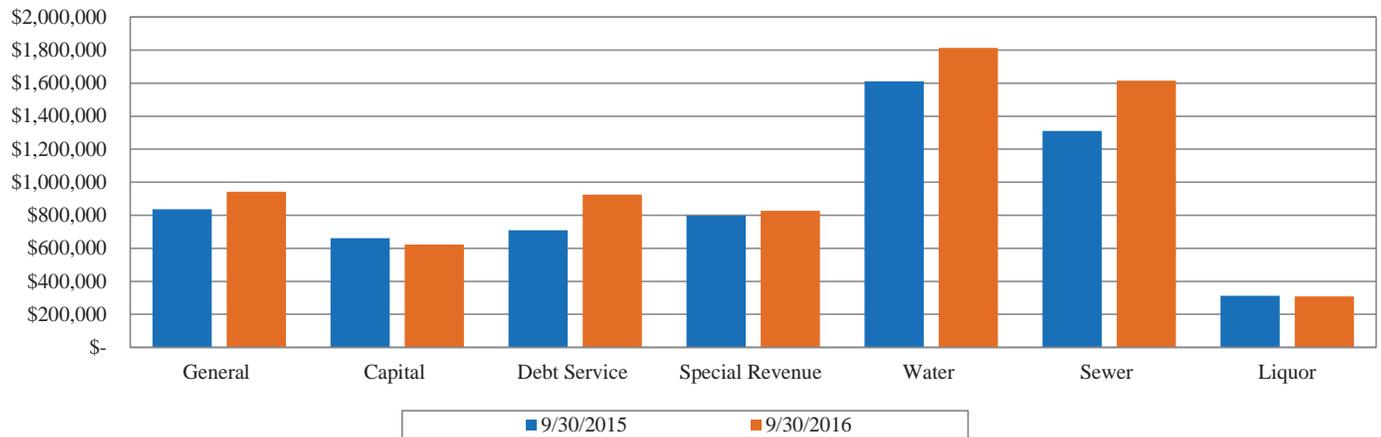
Attachment B

Fund	Balance 09/30/2015	Balance 12/31/2015	Balance 09/30/2016	YTD Change From 12/31/2015	Change From 09/30/2015
101 General	\$ 835,735	\$ 1,015,202	\$ 943,061	\$ (72,141) (1)	\$ 107,326
305 Capital Improvement	572,610	518,926	562,443	43,517	(10,167)
328 2009 Street Reconstruction	(259,310)	(259,310)	(233,379)	25,931	25,931
355 Fire Hall Construction	(500)	(500)	(500)	-	-
360 2015 Street Improvement Project	326,691	269,764	271,017	1,253	(55,674)
407 Refunding Bond Fund	187,262	316,286	320,721	4,435	133,459
408 2008 Debt Service Fund	229,425	163,237	196,759	33,522	(32,666)
410 2010 Debt Service Fund	-	210,418	150,877	(59,541) (2)	150,877
411 2011 Debt Service Fund	15,718	16,060	52,433	36,373	36,715
412 2012 Debt Service Fund	69,048	152,754	(796)	(153,550) (2)	(69,844)
413 2013 Debt Service Fund	92,521	109,545	97,179	(12,366)	4,658
425 GO Bonds 2007A Improv.	-	-	-	-	-
427 GO Improv Bonds 2008A	75,616	107,886	71,824	(36,062)	(3,792)
460 2015 Debt Service Fund	15,961	9,291	16,399	7,108	438
601 Cemetery Maintenance	183,153	185,183	188,354	3,171	5,201
701 Liquor	312,648	300,471	309,564	9,093	(3,084)
703 Water	1,611,241	1,827,939	1,813,838	(14,101)	202,597
707 Sewer	1,310,104	1,436,690	1,615,686	178,996 (3)	305,582
800 EDA Basic	568,367	119,128	105,959	(13,169)	(462,408)
810 Hardee's TIF District 1-1	46,392	53,841	53,182	(659)	6,790
820 Minnesota Investment Fund RLF	-	29,316	33,351	4,035	33,351
825 EDA Revolving Loan Fund	-	434,359	445,372	11,013	445,372
855 DMC Company TIF	8,786	16,602	9,255	(7,347)	469
866 GO Taxable TIF of 2003	26,122	16,641	19,854	3,213	(6,268)
868 Pine City Bottle Cap Condos	13,005	20,939	13,648	(7,291)	643
870 Astcott Debt Service Fund	(2,756)	-	-	-	2,756
Total	\$ 6,237,839	\$ 7,070,668	\$ 7,056,101	\$ (14,567)	\$ 818,262

Item Explanation of changes greater than \$50,000.

- (1) Decrease due to first-half tax settlement not being received till July; see Attachment A for further detail of General Fund activity.
- (2) Decrease due to February payment of principal and interest.
- (3) Increase due to revenues in excess of expenditures; see Attachment D for further detail of enterprise fund activity.

Cash Balance by Fund Compared to Prior Year



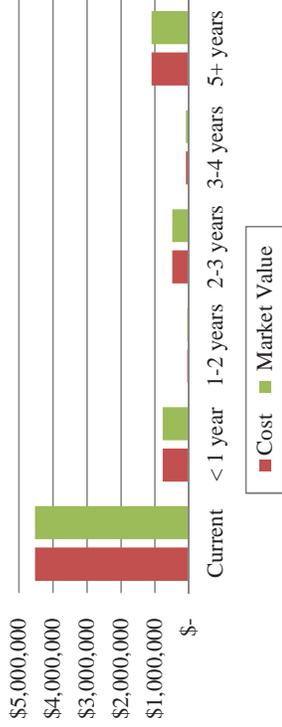
<p>Fund</p> <ul style="list-style-type: none"> ↑ General ↓ Capital ↑ Debt Service → Special Revenue 	<ul style="list-style-type: none"> ↑ Water ↑ Sewer → Liquor 	<p>Key</p> <ul style="list-style-type: none"> ↑ Balance increased more than 10% over prior year ↓ Balance decreased more than 10% over prior year → Balance within 10% of prior year
--	--	--

City of Pine City
 Schedule of Investments
 For the Month Ending September 30, 2016

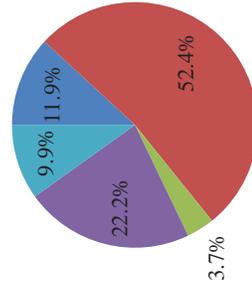
Institution	Description	Rate	Maturity Date	Cost 1/1/2016	Interest	Cost 9/30/2016	Market Value 9/30/2016
Northwoods Bank	Savings - XXX-6514	0.15%	Current	\$ 1,800,390.97	\$ 1,338.38	\$ 1,833,126.62	\$ 1,833,126.62
Northwoods Bank	Checking - XXX-5024	0.15%	Current	313,995.31	451.95	492,548.81	492,548.81
Northwoods Bank	Checking - XXX-4522		Current	131,555.65	-	331,886.27	331,886.27
Stearns Bank	Checking - XXX-0032	0.15%	Current	19,400.57	19.59	-	-
Stearns Bank	Savings - XXX-4752	0.15%	Current	2,022,739.05	2,875.83	1,278,576.23	1,278,576.23
Stearns Bank	Checking - XXX-4894		Current	1,887.22	-	1,749.88	1,749.88
Spire Bank	Savings - XXX-316	0.15%	Current	29.08	-	29.08	29.08
Stearns Bank	Savings - XXX-2095	0.15%	Current	377,674.96	907.51	410,974.21	410,974.21
Stearns Bank	Checking - XXX-7458		Current	25,037.84	-	11,320.42	11,320.42
Morgan Stanley	Money Market	0.01%	Current	511,266.95	23.93	176,851.95	176,851.95
Morgan Stanley	Federal Home Loan Mortgage Corp	2.00%	3/27/2023	200,000.00	2,000.00	-	-
Morgan Stanley	Federal National Mortgage Assn	1.50%	5/17/2024	-	-	100,044.00	100,001.00
Morgan Stanley	Federal Home Loan Mortgage Corp	1.25%	9/30/2024	160,000.00	-	160,006.50	159,480.00
Morgan Stanley	GE Capital Retail Bank, UT	2.00%	9/23/2016	200,000.00	4,010.96	650.00	-
Morgan Stanley	Barclays Banke of Wilmington, DE	1.05%	12/19/2016	248,000.00	1,305.57	248,582.80	248,287.68
Morgan Stanley	World Financial Network Bank, DE	1.85%	6/8/2017	200,000.00	2,787.69	201,818.00	201,360.00
Morgan Stanley	State Bank of India, NY	2.00%	6/22/2017	125,000.00	1,253.42	126,512.50	126,246.25
Morgan Stanley	Amex Centurion, Salk Lake City, UT	2.00%	8/29/2018	55,000.00	1,103.01	56,070.30	56,050.50
Morgan Stanley	Amex Centurion, Salk Lake City, UT	2.10%	10/24/2018	190,000.00	2,000.47	193,811.40	193,794.30
Morgan Stanley	Ally Bk Midvale UT	1.60%	1/14/2019	-	1,196.71	152,889.50	152,949.00
Morgan Stanley	Goldman Sachs, New York, NY	1.85%	1/22/2019	145,000.00	2,689.85	147,697.00	147,752.10
Morgan Stanley	Goldman Sachs, New York, NY	1.70%	1/16/2020	97,000.00	1,653.52	98,470.52	98,685.86
Morgan Stanley	HSBC Bk USA N A McLean VA	1.50%	12/30/2020	-	-	45,000.00	44,897.85
Morgan Stanley	Kennett National Bank, MO	1.70%	5/18/2022	-	572.87	100,127.00	100,048.00
Morgan Stanley	HSBC Bk USA N A McLean VA	2.00%	8/16/2024	-	-	200,000.00	199,392.00
Northwoods Bank	Northwoods Bank CD	1.10%	11/2/2016	100,500.00	-	100,500.00	100,500.00
Stearns Bank	Stearns Bank CD	0.85%	9/30/2017	100,000.00	-	100,000.00	100,000.00
Wells Fargo	Wells Fargo	0.85%	7/6/2021	100,000.00	-	100,000.00	100,000.00
Wells Fargo	Wells Fargo	0.85%	7/6/2021	100,000.00	-	100,000.00	100,000.00
Wells Fargo	Wells Fargo	0.85%	7/6/2021	100,000.00	-	100,000.00	100,000.00
Wells Fargo	Wells Fargo	0.85%	7/6/2021	100,000.00	-	100,000.00	100,000.00
Wells Fargo	Wells Fargo	0.85%	7/6/2021	50,000.00	-	50,000.00	50,000.00
Wells Fargo	Wells Fargo	0.85%	7/6/2021	50,000.00	-	50,000.00	50,000.00
Total cash and investments				\$ 7,524,477.60	\$ 26,191.26	\$ 7,069,242.99	\$ 7,066,508.01

City of Pine City
 Schedule of Investments
 For the Month Ending September 30, 2016

Maturities



Weighted Average Rate of Return 1.37% 9/30/2016
 Weighted Average Maturity 1.24 9/30/2016



Investment Type	Market Value 9/30/2016
Checking	837,505.38
Money Market	3,699,558.09
Government Securities	259,481.00
Brokered CD	1,569,463.54
Bank CD	700,500.00
	<u>\$ 7,066,508.01</u>

CITY OF PINE CITY, MINNESOTA
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL -
SEWER FUND (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

Attachment D

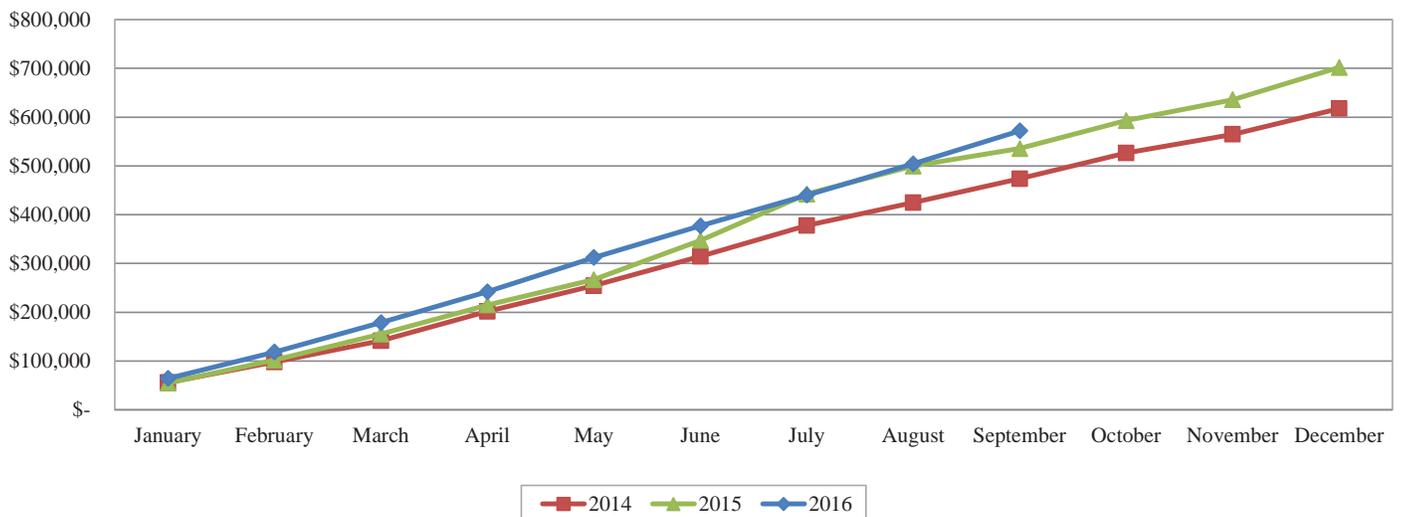
SEWER FUND

	Actual Thru 9/30/2015	Actual Thru 09/30/2016	Variance - Favorable (Unfavorable)	Percent Received or Expended Based on Budget Thru 09/30/2016	Budget Thru 09/30/2016
REVENUES					
Charges for services	\$ 546,619	\$ 571,864	\$ 25,245	104.6 %	\$ 509,775
Miscellaneous	15,877	18,414	2,537	116.0	7,500
TOTAL REVENUES	562,496	590,278	27,782	114.1	517,275
EXPENSES					
Salaries and benefits	111,027	109,043	1,984	98.2	120,294
Supplies	4,399	3,640	759	82.7	2,363
Other services and charges	12,494	13,030	(536)	104.3	24,600
Repair and maintenance	13,734	19,275	(5,541)	140.3	25,135
Utilities	38,523	49,388	(10,865) (1)	128.2	48,300
Interest	33,865	31,123	2,742	91.9	23,116
Depreciation	88,802	149,574	(60,772) (2)	168.4	89,550
TOTAL EXPENSES	302,844	375,073	(72,229)	123.9	333,357
OTHER FINANCING USES					
Transfers Out	171,410	75,068	96,342 (3)	43.8	165,800
EXCESS REVENUES OVER EXPENSES	\$ 88,242	\$ 140,137	\$ 3,669	158.8 %	\$ 18,119

Item Explanation of items percentage received/expended less than 80% or greater than 120% and \$ variance greater than \$10,000.

- (1) Increase in utility rates and usage for 2016; variance within budget.
- (2) Fixed assets assigned to wrong fund per AEM audit at year-end; depreciation will be higher for 2016 and future years.
- (3) Budgeted transfers for debt service no longer necessary as fund 407 no longer pays debt service for sewer.

Sewer Sales Comparison 2014-2016



CITY OF PINE CITY, MINNESOTA
 STATEMENT OF REVENUES AND EXPENSES -
 BUDGET AND ACTUAL -
 WATER FUND (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

Attachment D

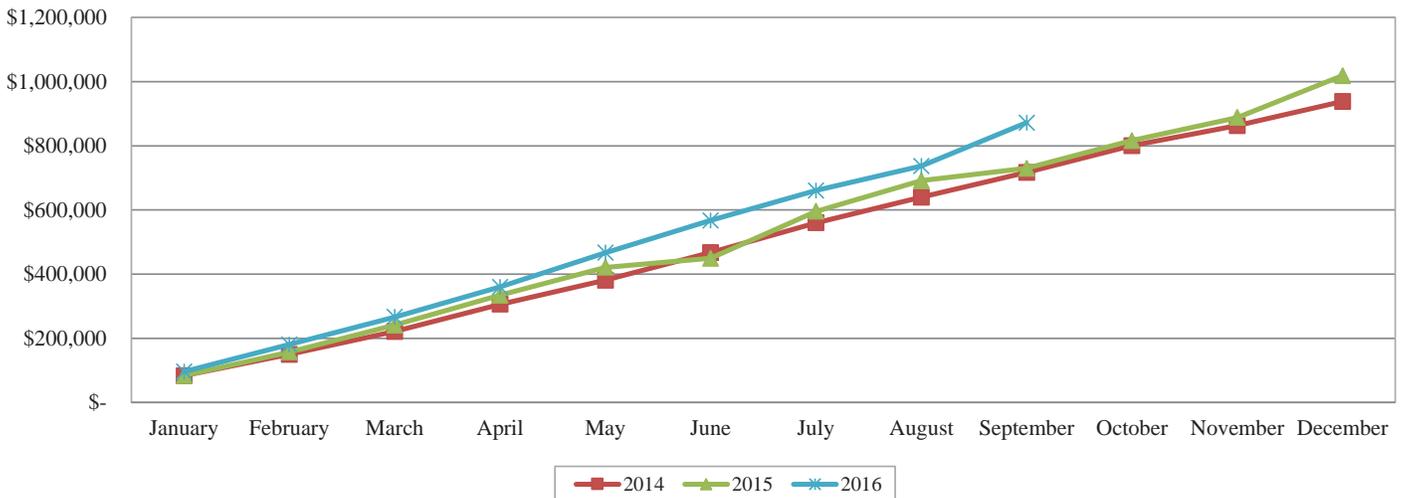
WATER FUND

	Actual Thru 9/30/2015	Actual Thru 09/30/2016	Variance - Favorable (Unfavorable)	Percent Received or Expended Based on Actual Thru 09/30/2016	Budget Thru 09/30/2016
REVENUES					
Charges for services	\$ 761,547	\$ 872,221	\$ 110,674	114.5 %	\$ 779,100
Miscellaneous	27,494	52,940	25,446 (1)	192.6	13,425
TOTAL REVENUES	789,041	925,161	136,120	116.7	792,525
EXPENSES					
Salaries and benefits	104,281	103,020	1,261	98.8	114,894
Supplies	14,666	10,621	4,045	72.4	17,700
Other services and charges	11,847	17,598	(5,751)	148.5	33,105
Repair and maintenance	13,932	8,816	5,116	63.3	23,185
Utilities	39,692	35,793	3,899	90.2	39,600
Interest	180,197	170,734	9,463	94.7	125,198
Depreciation	149,574	86,772	62,802 (2)	58.0	149,250
TOTAL EXPENSES	514,189	433,354	80,835	86.2	502,932
OTHER FINANCING USES					
Transfers Out	176,960	72,993	103,967 (3)	41.2	93,750
EXPENSES	\$ 97,892	\$ 418,814	\$ (48,682)	213.9 %	\$ 195,843

Item Explanation of items percentage received/expended less than 80% or greater than 120% and \$ variance greater than \$10,000.

- (1) Negative variance due to first-half interest payment made in February.
- (2) Fixed assets assigned to wrong fund per AEM audit at year-end; depreciation will be lower for 2016 and future years.
- (3) Budgeted transfers for debt service no longer necessary as fund 407 no longer pays debt service for water.

Water Sales Comparison 2014-2016



CITY OF PINE CITY, MINNESOTA
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL -
LIQUOR STORE FUND (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

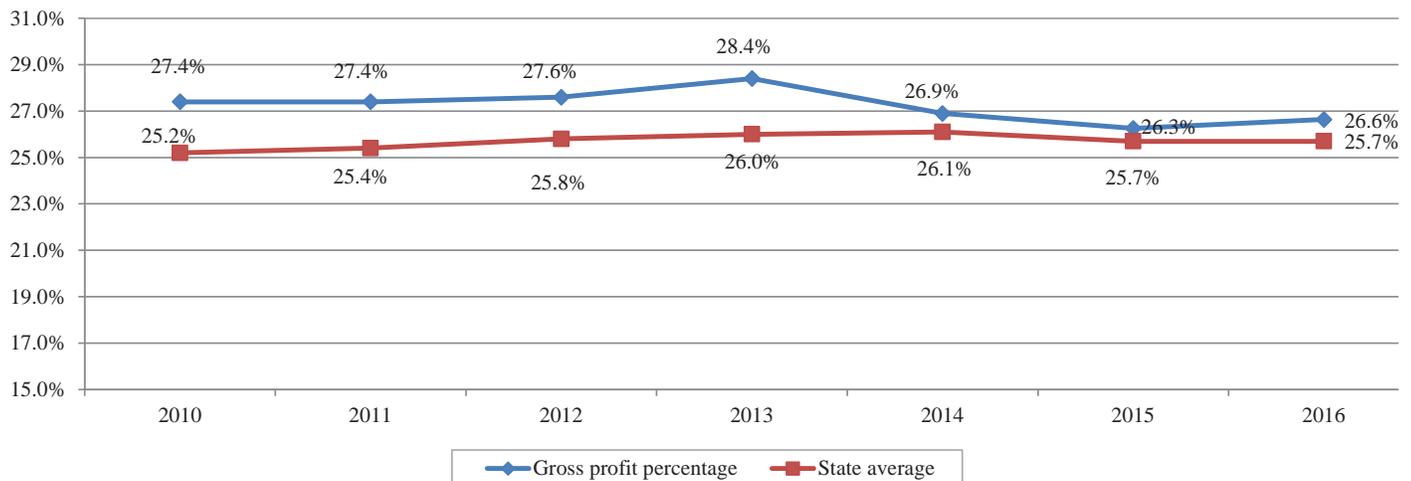
Attachment D

LIQUOR STORE

	Actual Thru 9/30/2015	Actual Thru 09/30/2016	Variance - Favorable (Unfavorable)	Percent Received or Expended Based on Budget Thru 09/30/2016	Budget Thru 09/30/2016
REVENUES					
Sales	\$ 1,282,023	\$ 1,339,947	\$ 57,924	104.5 %	\$ 1,275,375
Miscellaneous	3,185	2,540	(645)	79.7	3,225
TOTAL REVENUES	<u>1,285,208</u>	<u>1,342,487</u>	<u>57,279</u>	<u>105.0</u>	<u>1,278,600</u>
EXPENSES					
Salaries and benefits	183,036	177,828	5,208	97.2	177,675
Supplies	12,170	12,372	(202)	101.7	11,438
Services	44,967	41,801	3,166	93.0	43,275
Utilities	12,496	12,524	(28)	100.2	13,500
Cost of Goods Sold	904,387	983,021	(78,634)	108.7	925,463
Depreciation	6,888	6,888	-	100.0	6,750
TOTAL EXPENSES	<u>1,163,944</u>	<u>1,234,434</u>	<u>(70,490)</u>	<u>106.1</u>	<u>1,178,100</u>
TOTAL REVENUE OVER EXPENSES BEFORE TRANSFERS	<u>121,264</u>	<u>108,053</u>	<u>(13,211)</u>	<u>89.1</u>	<u>100,500</u>
OTHER FINANCING USES					
Transfers Out	93,750	93,750	-	100.0	93,750
EXCESS REVENUES OVER EXPENSES	<u>\$ 27,514</u>	<u>\$ 14,303</u>	<u>N/A</u>	<u>52.0 %</u>	<u>\$ 6,750</u>

Sales	\$ 1,339,947
Cost of sales	<u>983,021</u>
Gross profit	<u>\$ 356,926</u>
Gross profit percentage 3/31/16	26.6%

Gross Profit Percentage vs. State Average



* 2015 & 2016 municipal liquor state report is not available at this time. An average percent of 5 years has been used for the 2015 state average for 2015 & 2016.

Item Explanation of items percentage received/expended greater than 20% and \$ variance greater than \$10,000.