

**City of Big Lake
Sherburne County, Minnesota**

Financial Statements

December 31, 2017



**City of Big Lake
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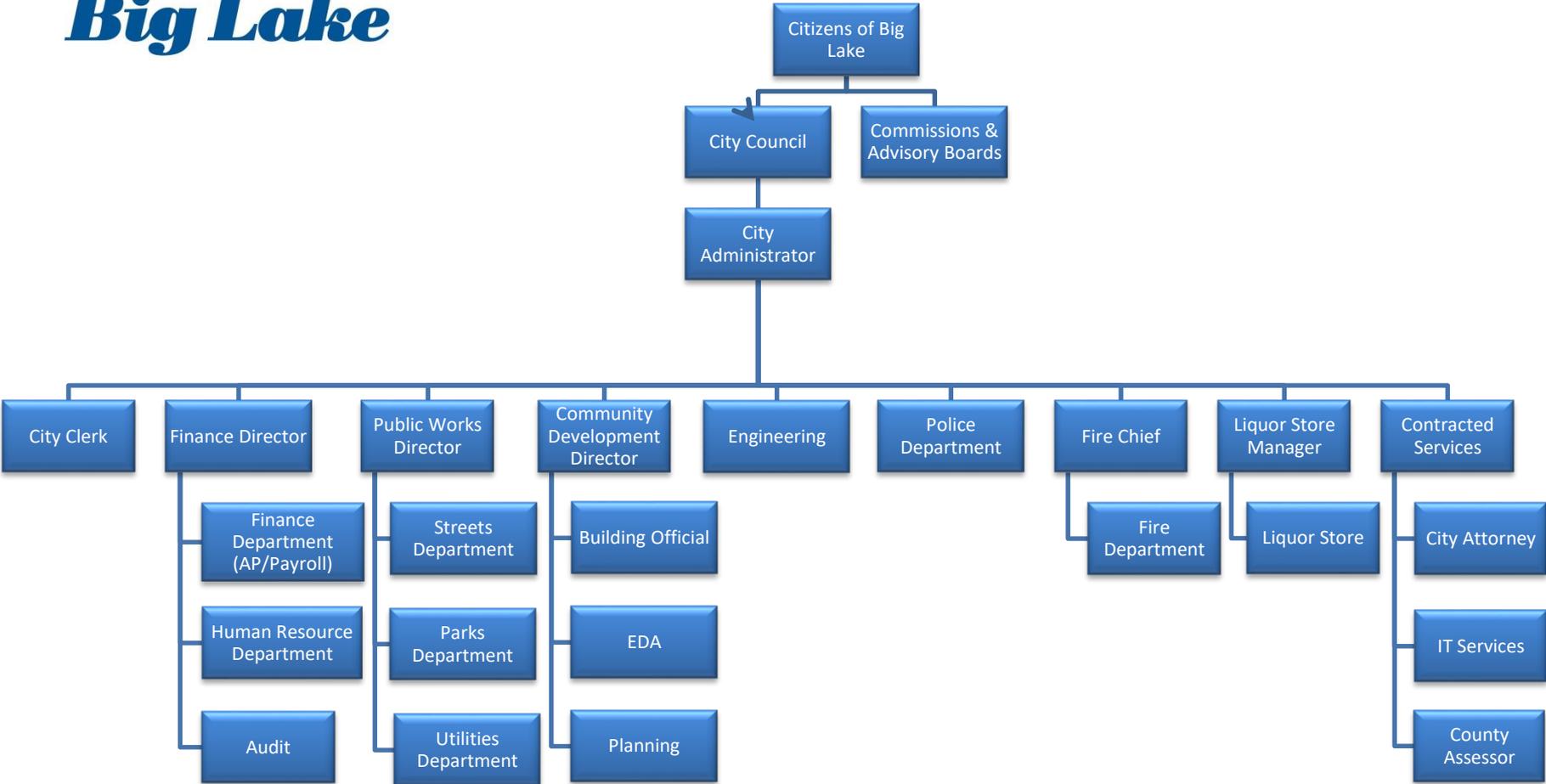
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**City of Big Lake
Elected Officials and Administration
December 31, 2017**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Raeanne Danielowski	Mayor	December 31, 2020
Duane Langsdorf	Council Member	December 31, 2018
Richard Backlund	Council Member	December 31, 2020
Seth Hansen	Council Member	December 31, 2020
Mike Wallen	Council Member	December 31, 2018
<u>Administration</u>		
Clay Wilfahrt	City Administrator	Appointed
Deb Wegeleben	Finance Director	Appointed



Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Big Lake
Big Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Big Lake, Minnesota, as of and for the year ended December 31, 2017, and the related notes to 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 the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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



Auditor's Responsibility (Continued)

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

Opinions

In our opinion, the financial statements referred to in the first paragraph 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 Big Lake, Minnesota, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows, thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Big Lake's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.



Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018, on our consideration of the City of Big Lake'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 Big Lake's internal control over financial reporting and compliance.

BerganKDV, Ltd.

St. Cloud, Minnesota

April 19, 2018

City of Big Lake Management's Discussion and Analysis

As management of the City of Big Lake (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended in December 31, 2017. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows resources at the close of the most recent fiscal year by \$55,466,356. Of this amount, \$7,197,374 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased \$2,598,403, from the prior year. Of the increase, 37% was attributable to governmental activities and 63% to business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,040,179, a decrease of \$480,306 from the previous year. The decrease is attributable to construction projects as well as payment of outstanding debt obligation.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,990,373 or 64%, of the total General Fund expenditures and transfers out.
- The City's total bonded and other long-term debt decreased by \$4,125,885 during the current fiscal year. In 2017, the City did not issue any new debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (uncollected taxes and earned but unused vacation and sick leave).

City of Big Lake Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets and highways, economic development, culture and recreation and interest/fiscal charges on long-term debt. The business-type activities of the City include water, sewer, storm sewer and liquor operations.

The government-wide financial statements include the City itself (known as the primary government). The Economic Development Authority (EDA), although legally separate, functions for all practical purposes as a department of the City and, therefore, has been included within the general government activities of the primary government.

The government-wide financial statements can be found on pages 18-20 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

City of Big Lake Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds (Continued)

The City maintains 31 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund as it is considered a major fund and for the Capital Project/Infrastructure Improvement Fund, and for the Capital Project/Street Improvement Fund. Data from the other 28 governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for its General Fund and special revenue funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with budget.

The basic governmental fund financial statements can be found on pages 21-26 of this report

Proprietary Funds

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, storm sewer and liquor operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, storm sewer and liquor operations, all of which are considered major funds of the City.

The basic proprietary fund financial statements can be found on pages 27-29 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting used for the fiduciary funds is much like that used for the proprietary funds.

The basic fiduciary fund financial statements can be found on page 30 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 31-69 of this report.

Other Information

Required supplementary information pertaining to the net pension liability can be found on pages 72-77 of this report.

**City of Big Lake
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Other Information

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 80-94 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows or resources exceeded liabilities and deferred inflows of resources by \$55,466,356 at the close of the most recent fiscal year.

Approximately 80% of the City's net position reflect its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, 7%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$7,197,374 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in all categories of the governmental activities and business-type activities.

**City of Big Lake
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

City of Big Lake's Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 13,332,496	\$ 14,843,977	\$ 7,112,881	\$ 4,994,490	\$ 20,445,377	\$ 19,838,467
Capital Assets	29,855,110	29,651,630	49,485,956	51,895,194	79,341,066	81,546,824
Total Assets	\$ 43,187,606	\$ 44,495,607	\$ 56,598,837	\$ 56,889,684	\$ 99,786,443	\$ 101,385,291
Deferred Outflows of Resources	\$ 2,130,442	\$ 3,274,524	\$ 319,983	\$ 632,046	\$ 2,450,425	\$ 3,906,570
Noncurrent Liabilities Outstanding	\$ 17,610,628	\$ 22,257,442	\$ 20,619,629	\$ 22,958,074	\$ 38,230,257	\$ 45,215,516
Other Liabilities	3,354,020	3,853,766	2,706,620	2,647,492	6,060,640	6,501,258
Total Liabilities	\$ 20,964,648	\$ 26,111,208	\$ 23,326,249	\$ 25,605,566	\$ 44,290,897	\$ 51,716,774
Deferred Inflows of Resources	\$ 2,283,885	\$ 544,158	\$ 195,730	\$ 162,976	\$ 2,479,615	\$ 707,134
Net Position						
Net Investment in Capital Assets	\$ 16,330,617	\$ 14,330,114	\$ 27,887,831	\$ 28,191,999	\$ 44,218,448	\$ 42,522,113
Restricted	4,050,534	4,779,977	-	-	4,050,534	4,779,977
Unrestricted	1,688,364	2,004,674	5,509,010	3,561,189	7,197,374	5,565,863
Total Net Position	\$ 22,069,515	\$ 21,114,765	\$ 33,396,841	\$ 31,753,188	\$ 55,466,356	\$ 52,867,953

The City's net position increased by \$2,598,403 during the current fiscal year. Of this increase, governmental activities increased the City's net position by 37% or \$ 954,750. Business-type activities increased the City's net position by 63% or \$1,643,653.

**City of Big Lake
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

Governmental Activities

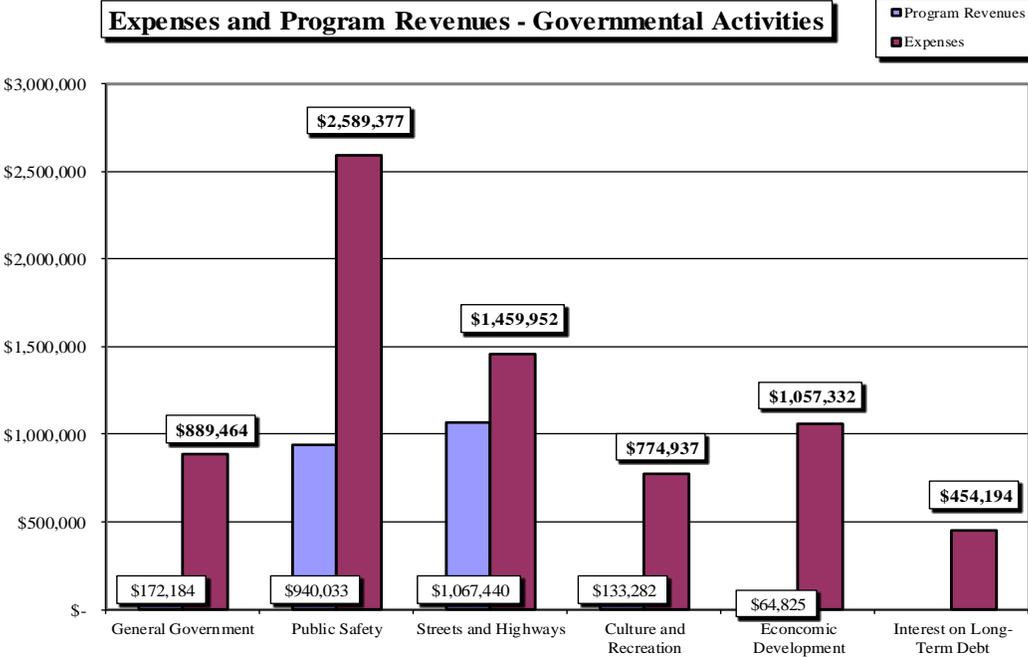
City of Big Lake's Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue:						
Program revenues:						
Charges for services	\$ 1,016,122	\$ 823,937	\$ 10,683,524	\$ 8,872,542	\$ 11,699,646	\$ 9,696,479
Operating grants and contributions	383,139	574,835	27,693	45,700	410,832	620,535
Capital grants and contributions	978,503	1,211,405	-	192,242	978,503	1,403,647
General revenues:						
Property taxes and tax increment and franchise fees	4,574,851	4,339,909	-	-	4,574,851	4,339,909
State aids	546,863	542,339	-	-	546,863	542,339
Unrestricted investment earnings	77,174	71,836	83,558	77,531	160,732	149,367
Other income	25,390	208,268	1,000	28,000	26,390	236,268
Total revenues	\$7,602,042	\$7,772,529	\$10,795,775	\$9,216,015	\$18,397,817	\$16,988,544
Expenses:						
General government	889,464	817,758	-	-	889,464	817,758
Public safety	2,589,377	2,824,362	-	-	2,589,377	2,824,362
Streets and highways	1,459,952	1,715,070	-	-	1,459,952	1,715,070
Culture and recreation	774,937	715,728	-	-	774,937	715,728
Economic development	1,057,332	764,277	-	-	1,057,332	764,277
Interest on long-term debt	454,194	634,810	-	-	454,194	634,810
Water	-	-	1,911,736	1,827,785	1,911,736	1,827,785
Sewer	-	-	2,589,521	2,470,971	2,589,521	2,470,971
Municipal liquor	-	-	3,640,702	3,504,046	3,640,702	3,504,046
Storm sewer	-	-	432,199	443,110	432,199	443,110
Total expenses	7,225,256	7,472,005	8,574,158	8,245,912	15,799,414	15,717,917
Increase (decrease) in net position						
Before transfers	376,786	300,524	2,221,617	970,103	2,598,403	1,270,627
Transfers	577,964	480,237	(577,964)	(480,237)	-	-
Increase (decrease) in net position	954,750	780,761	1,643,653	489,866	2,598,403	1,270,627
Net position - beginning	21,114,765	20,334,004	31,753,188	31,263,322	52,867,953	51,597,326
Net position - ending	\$ 22,069,515	\$ 21,114,765	\$ 33,396,841	\$ 31,753,188	\$ 55,466,356	\$ 52,867,953

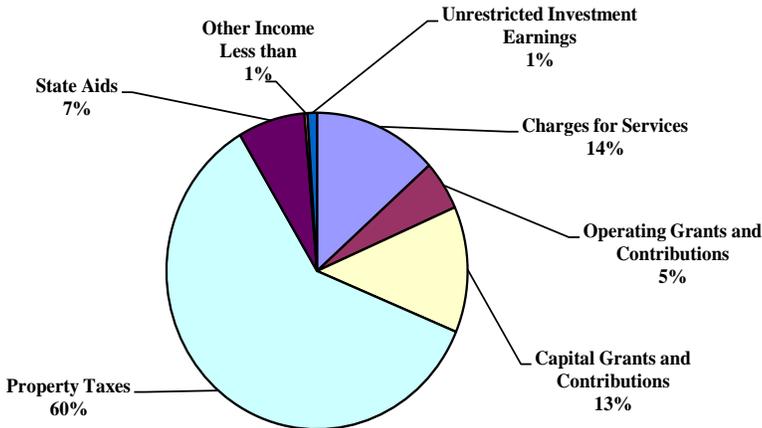
The City's net position increased by \$2,598,403 during the current fiscal year. Of this increase, governmental activities increased the City's net position by 37% or \$954,750. This increase can be attributed to new development, with the increase of single-family housing permits issued in 2017 verses 2016.

**City of Big Lake
Management's Discussion and Analysis**

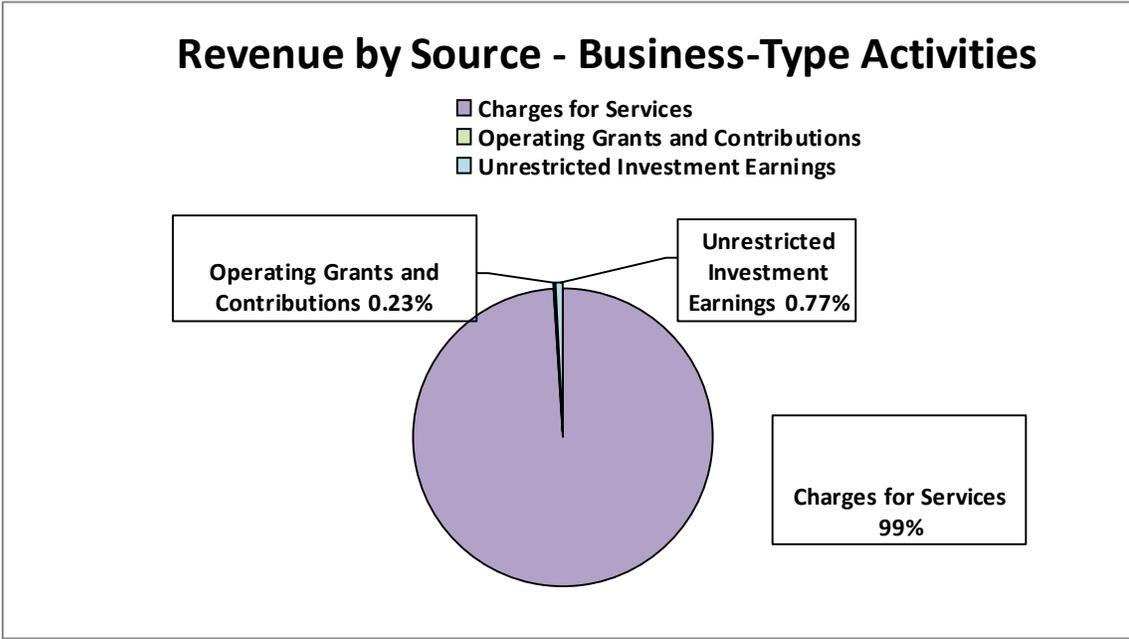
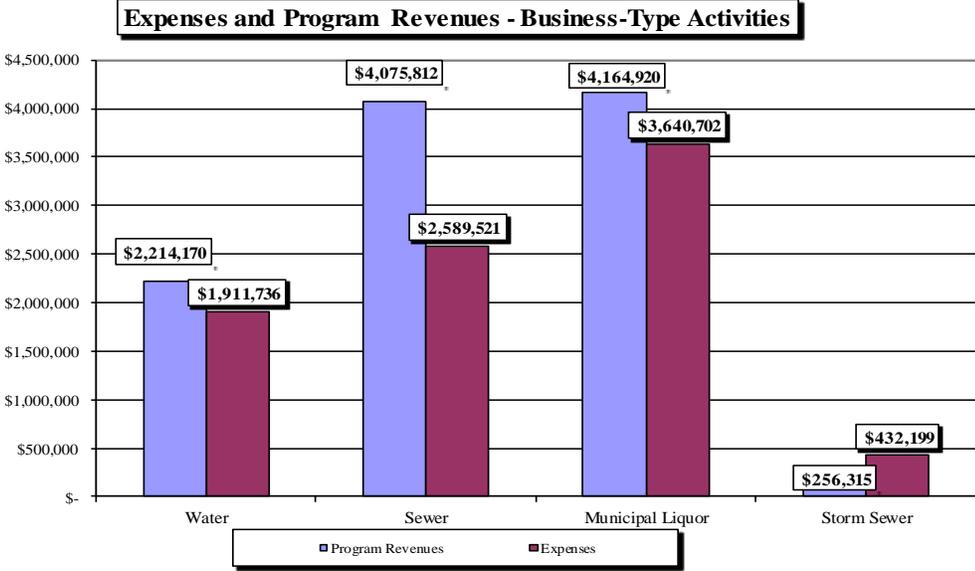
FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)



Revenues by Source - Governmental Activities



City of Big Lake Management's Discussion and Analysis



Business-Type Activities

Business-type activities increased the City's net position by \$1,643,653, resulting in 63% of the total increase in the government's net position. Business-type activities net position increase can be attributed to increase in development and the corresponding SAC/WAC fees.

City of Big Lake Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,040,179, a decrease of \$480,306 from the previous year. Approximately 44% of this total amount, \$4,494,811 constitutes assigned and unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is restricted or non-spendable to indicate that it is not available for new spending because it has external spending requirements.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unrestricted, spendable fund balance of the General Fund was \$3,140,386, while total fund balance reached \$3,228,887. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 67% of the total General Fund expenditures and transfers out, while total fund balance represents 69% of that same amount.

The fund balance of the City's General Fund increased by \$204,715 during the current fiscal year. Total revenues and other financing sources in were \$548,739 over budget due to an increase in revenues for Building permits, Property Tax, Franchise Fees and Donations. Expenditures and transfers out ended 2017 over budget by \$344,024 primarily due to an approved transfer of \$500,000 to the Capital Infrastructure/Replacement Funds for future improvement projects at year end per the City's financial policies. The policies state that any excess fund balance over the 50% can be transferred to the Capital Improvement funds at year end.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water operations at the end of the year amounted to \$(165,345), those for the sewer operations amounted to \$4,431,064 and the storm sewer operations were \$159,009, those for the liquor operations amounted to \$1,084,282. The changes in net position for each of the utility funds were as follows: water an increase of \$166,995, sewer an increase of \$1,510,606, and storm sewer a decrease of \$(213,706). The liquor fund saw an increase of \$179,758. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

City of Big Lake Management's Discussion and Analysis

Proprietary Funds (Continued)

The Municipal Liquor Store realized income before transfers of \$529,758. With an operating transfer of \$300,000 to the General Fund and \$50,000 to the Capital Infrastructure and Improvement Fund for future City projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2017, amounts to \$79,341,066 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, improvements, infrastructure, collection and distribution systems, buildings and machinery and equipment.

City of Big Lake's Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 8,025,819	\$ 8,025,819	\$ 1,534,320	\$ 1,534,320	\$ 9,560,139	\$ 9,560,139
Construction in Progress	1,326,354	171,816	-	-	1,326,354	171,816
Leasehold Improvements	34,963	38,540	91,824	97,866	126,787	136,406
Infrastructure	16,740,000	17,791,562	-	-	16,740,000	17,791,562
Collection and Distribution Systems	-	-	25,391,175	26,883,885	25,391,175	26,883,885
Buildings	2,979,954	3,145,736	22,083,652	23,005,255	25,063,606	26,150,991
Machinery and Equipment	748,020	478,157	384,985	373,868	1,133,005	852,025
Total	\$ 29,855,110	\$ 29,651,630	\$ 49,485,956	\$ 51,895,194	\$ 79,341,066	\$ 81,546,824

Additional information on the City's capital assets can be found in Note 6 on pages 46-48 of this report.

Long-Term Debt

At the end of the current fiscal year, the City had a total bonded and capital lease debt outstanding of \$38,557,801. Of this amount, \$2,188,000 comprises debt backed by the full faith and credit of the government and \$11,365,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured by specific revenue sources (i.e., tax increment financing [TIF] bonds, revenue bonds, lease revenue bonds).

City of Big Lake's Outstanding Bonded Debt

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
G.O. Bonds/Notes	\$ 2,188,000	\$ 2,450,000	\$ -	\$ -	\$ 2,188,000	\$ 2,450,000
G.O. Tax Increment Bonds	3,360,000	3,595,000	-	-	3,360,000	3,595,000
G.O. Special Assessment Bonds	11,365,000	12,870,000	-	-	11,365,000	12,870,000
EDA Lease Revenue Bonds	-	-	-	-	-	-
PFA Drinking Water Revolving Loan	-	-	3,677,000	4,152,000	3,677,000	4,152,000
PFA Clean Water Revolving Loan	-	-	10,113,000	10,832,000	10,113,000	10,832,000
G.O. Taxable Tax Abatement Bonds	241,870	269,200	643,130	715,800	885,000	985,000
G.O. Revenue Bonds/Notes	-	-	6,930,000	7,745,000	6,930,000	7,745,000
Capital Lease	39,801	54,686	-	-	39,801	54,686
Total	\$ 17,194,671	\$ 19,238,886	\$ 21,363,130	\$ 23,444,800	\$ 38,557,801	\$ 42,683,686

**City of Big Lake
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION

Long-Term Debt (Continued)

Total bonded debt decreased by \$4,125,885 during the current fiscal year. The City maintains an “AA-” rating from Standard & Poor's for general obligation (G.O.) debt. Additional information on the City's long-term debt can be found in Note 7 on pages 48-53 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Budgeted spending for the City's General Fund for 2018 was increased by 9.59% over the 2017 budget; for an overall balanced budget of \$4,697,392.
- The 2018 total levy amount of \$4,175,858 was a 3.44% increase over the 2017 amount.
- The Net Tax Capacity is projected to increase by 8.15% for 2018, with Taxable Market Value increasing by 9.92%.
- In 2018, the City anticipates receiving approximately \$618,607 in Local Government Aid (LGA), as compared to \$543,623 received in 2017. The City has decided to budget the LGA in the Capital Improvement and Equipment replacement funds instead of the general operating fund. These funds will be used for future purchase or improvement of Capital Assets. LGA payments are typically received in July and December.
- Water and sewer rates were increased in 2017 based on the rate study conducted by Progressive Consulting Engineers in 2015; the city implemented the new rate fee in the first quarter of 2017. These rates will be monitored on an annual basis and recommended changes brought to council for approval.
- Building Permits for single family homes continues to grow, the City is anticipating approximately 70 new permits in 2018, which is in line with what was budgeted for 2018.
- The City continues to see existing business expand their operations as well as an increase in multi-family projects that should be completed in the coming years.
- The City will begin the street reconstruction projects in 2018.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be submitted in writing and addressed to: City of Big Lake, Attn: Finance Director, 160 Lake Street North, Big Lake, Minnesota 55309

BASIC FINANCIAL STATEMENTS

**City of Big Lake
Statement of Net Position
December 31, 2017**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments (including cash equivalents)	\$ 8,339,635	\$ 4,705,941	\$ 13,045,576
Cash with fiscal agent	2,516,073	-	2,516,073
Receivables			
Property tax receivable	207,374	-	207,374
Accounts receivable	121,015	425,925	546,940
Interest receivable	12,446	-	12,446
Notes receivable	546,000	-	546,000
Special assessments receivable			
Delinquent	120,476	19,831	140,307
Deferred	1,346,529	187,651	1,534,180
Due from other governments	147,045	408	147,453
Advances to other funds (internal balances)			
Within one year	(28,510)	28,510	-
After one year	(1,061,389)	1,061,389	-
Inventories	-	511,566	511,566
Land held for resale	879,260	-	879,260
Prepaid items	88,908	46,135	135,043
Restricted cash and cash equivalents	-	125,525	125,525
Net pension asset - Fire Relief Association	97,634	-	97,634
Capital assets not being depreciated			
Land	8,025,819	1,534,320	9,560,139
Construction in progress	1,326,354	-	1,326,354
Capital assets being depreciated			
Infrastructure	37,164,549	-	37,164,549
Buildings	4,979,619	27,648,091	32,627,710
Leasehold improvements	71,543	223,833	295,376
Machinery and equipment	4,246,343	1,347,130	5,593,473
Collection and distribution systems	-	46,280,812	46,280,812
Less accumulated depreciation	(25,959,117)	(27,548,230)	(53,507,347)
Total assets	43,187,606	56,598,837	99,786,443
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	2,130,442	319,983	2,450,425
Total assets and deferred outflows of resources	\$ 45,318,048	\$ 56,918,820	\$ 102,236,868

**City of Big Lake
Statement of Net Position
December 31, 2017**

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts payable	\$ 150,757	\$ 262,620	\$ 413,377
Salaries and benefits payable	71,222	25,823	97,045
Escrow payable	439,820	-	439,820
Contracts payable	15,800	370	16,170
Due to other governments	204,522	37,132	241,654
Interest payable	177,288	218,874	396,162
Unearned revenue	92,183	22,355	114,538
Net G.O. Bonds principal payable			
Payable within one year	1,815,000	-	1,815,000
Payable after one year	13,769,091	-	13,769,091
G.O. Revenue Bonds and Notes payable			
Payable within one year	28,697	2,030,304	2,059,001
Payable after one year	219,027	19,567,821	19,786,848
Notes payable			
Payable within one year	124,000	-	124,000
Payable after one year	1,519,000	-	1,519,000
Capital lease payable			
Payable within one year	15,871	-	15,871
Payable after one year	23,930	-	23,930
Compensated absences payable			
Payable within one year	218,860	109,142	328,002
Net pension liability	2,039,959	1,051,808	3,091,767
Severance payable			
Payable after one year	39,621	-	39,621
Total liabilities	<u>20,964,648</u>	<u>23,326,249</u>	<u>44,290,897</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	<u>2,283,885</u>	<u>195,730</u>	<u>2,479,615</u>
Net Position			
Net investment of capital assets	16,330,617	27,887,831	44,218,448
Restricted for			
Debt service	3,738,531	-	3,738,531
Tax increment	156,018	-	156,018
Parkland dedication	137,095	-	137,095
Other purposes	18,890	-	18,890
Unrestricted	<u>1,688,364</u>	<u>5,509,010</u>	<u>7,197,374</u>
Total net position	<u>22,069,515</u>	<u>33,396,841</u>	<u>55,466,356</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 45,318,048</u>	<u>\$ 56,918,820</u>	<u>\$ 102,236,868</u>

**City of Big Lake
Statement of Activities
Year Ended December 31, 2017**

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 889,464	\$ 137,212	\$ 34,972	\$ -	\$ (717,280)	\$ -	\$ (717,280)
Public safety	2,589,377	640,909	299,124	-	(1,649,344)	-	(1,649,344)
Streets and highways	1,459,952	171,492	11,407	884,541	(392,512)	-	(392,512)
Culture and recreation	774,937	59,333	37,636	36,313	(641,655)	-	(641,655)
Economic development	1,057,332	7,176	-	57,649	(992,507)	-	(992,507)
Interest on long-term debt	454,194	-	-	-	(454,194)	-	(454,194)
Total governmental activities	<u>7,225,256</u>	<u>1,016,122</u>	<u>383,139</u>	<u>978,503</u>	<u>(4,847,492)</u>	<u>-</u>	<u>(4,847,492)</u>
Business-type activities							
Water	1,911,736	2,194,760	19,410	-	-	302,434	302,434
Sewer	2,589,521	4,072,068	3,744	-	-	1,486,291	1,486,291
Liquor	3,640,702	4,161,963	2,957	-	-	524,218	524,218
Storm sewer	432,199	254,733	1,582	-	-	(175,884)	(175,884)
Total business-type activities	<u>8,574,158</u>	<u>10,683,524</u>	<u>27,693</u>	<u>-</u>	<u>-</u>	<u>2,137,059</u>	<u>2,137,059</u>
Total governmental and business-type activities	<u>\$ 15,799,414</u>	<u>\$ 11,699,646</u>	<u>\$ 410,832</u>	<u>\$ 978,503</u>	<u>(4,847,492)</u>	<u>2,137,059</u>	<u>(2,710,433)</u>
General revenues							
Property taxes					3,997,275	-	3,997,275
Franchise Fees					434,945	-	434,945
Tax increments					142,631	-	142,631
State aids					546,863	-	546,863
Unrestricted investment and other interest income					77,174	83,558	160,732
Other general revenue					15,277	-	15,277
Gain on sale of assets					10,113	1,000	11,113
Transfers					577,964	(577,964)	-
Total general revenues and transfers					<u>5,802,242</u>	<u>(493,406)</u>	<u>5,308,836</u>
Change in net position					954,750	1,643,653	2,598,403
Net position - beginning					21,114,765	31,753,188	52,867,953
Net position - ending					<u>\$ 22,069,515</u>	<u>\$ 33,396,841</u>	<u>\$ 55,466,356</u>

City of Big Lake
Balance Sheet - Governmental Funds
December 31, 2017

	Capital Projects				Total Governmental Funds
	General (101)	Street Improvement (175)	Infrastructure Improvement Fund (198)	Other Governmental Funds	
Assets					
Cash and investments	\$ 3,282,559	\$ 134	\$ 1,386,817	\$ 3,670,125	\$ 8,339,635
Cash with fiscal agent	-	-	-	2,516,073	2,516,073
Taxes receivable - delinquent	134,340	-	-	73,034	207,374
Accounts receivable	114,135	-	-	6,880	121,015
Interest receivable	12,446	-	-	-	12,446
Due from other governments	102,105	-	-	44,940	147,045
Advances to other funds	-	-	19,099	-	19,099
Notes receivable	-	-	-	546,000	546,000
Special assessment receivable					
Delinquent	1,846	3,180	2,626	112,824	120,476
Deferred	2,611	-	-	1,343,918	1,346,529
Land held for resale	-	-	-	879,260	879,260
Prepaid items	88,501	-	-	407	88,908
	<u>3,738,543</u>	<u>3,314</u>	<u>1,408,542</u>	<u>9,193,461</u>	<u>14,343,860</u>
Total assets	<u>\$ 3,738,543</u>	<u>\$ 3,314</u>	<u>\$ 1,408,542</u>	<u>\$ 9,193,461</u>	<u>\$ 14,343,860</u>
Liabilities					
Accounts payable	\$ 63,051	\$ 78,292	\$ 3,900	\$ 5,514	\$ 150,757
Salaries and benefits payable	71,222	-	-	-	71,222
Escrow payable	107,894	10,000	-	321,926	439,820
Contracts payable	-	-	-	15,800	15,800
Due to other governments	70,865	-	-	133,657	204,522
Advances from other funds	28,510	-	-	1,080,488	1,108,998
Unearned revenue	29,317	-	62,366	500	92,183
Total liabilities	<u>370,859</u>	<u>88,292</u>	<u>66,266</u>	<u>1,557,885</u>	<u>2,083,302</u>
Deferred Inflows of Resources					
Unavailable revenue - notes receivables	-	-	-	546,000	546,000
Unavailable revenue - property taxes	134,340	-	-	73,034	207,374
Unavailable revenue - special assessments	4,457	3,180	2,626	1,456,742	1,467,005
Total deferred inflows of resources	<u>138,797</u>	<u>3,180</u>	<u>2,626</u>	<u>2,075,776</u>	<u>2,220,379</u>
Fund Balances					
Nonspendable	88,501	-	-	784,507	873,008
Restricted	-	-	-	4,672,360	4,672,360
Assigned	150,013	-	1,339,650	890,108	2,379,771
Unassigned	2,990,373	(88,158)	-	(787,175)	2,115,040
Total fund balances	<u>3,228,887</u>	<u>(88,158)</u>	<u>1,339,650</u>	<u>5,559,800</u>	<u>10,040,179</u>
	<u>\$ 3,738,543</u>	<u>\$ 3,314</u>	<u>\$ 1,408,542</u>	<u>\$ 9,193,461</u>	<u>\$ 14,343,860</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,738,543</u>	<u>\$ 3,314</u>	<u>\$ 1,408,542</u>	<u>\$ 9,193,461</u>	<u>\$ 14,343,860</u>

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City of Big Lake
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2017

Total fund balances - governmental funds	\$ 10,040,179
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.</p>	
Cost of capital assets	55,814,227
Less accumulated depreciation	(25,959,117)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.</p>	
<p>Long-term liabilities at year-end consist of:</p>	
G.O. bonds principal payable	(15,511,870)
Unamortized bond premiums	(319,945)
Notes payable	(1,643,000)
Capital lease payable	(39,801)
Compensated absences payable	(218,860)
Severance payable	(39,621)
Net pension liability	(2,039,959)
Net pension asset	97,634
<p>Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.</p>	
Property taxes	207,374
Special assessments	120,476
<p>Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.</p>	
Deferred inflows of resources related to pensions	(2,283,885)
Deferred outflows of resources related to pensions	2,130,442
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Special assessments	1,346,529
Notes receivable	546,000
<p>Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.</p>	
	(177,288)
Total net position - governmental activities	\$ 22,069,515

See notes to financial statements.

City of Big Lake
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2017

	General (101)	Capital Projects			Total Governmental Funds
		Street Improvement (175)	Infrastructure Improvement Fund (198)	Other Governmental Funds	
Revenues					
Property taxes	\$ 2,625,717	\$ -	\$ -	\$ 1,401,270	\$ 4,026,987
Tax increments	-	-	-	142,631	142,631
Franchise fees	434,945	-	-	-	434,945
Special assessments	2,149	-	-	534,302	536,451
Licenses and permits	619,442	-	-	1,435	620,877
Intergovernmental	375,428	-	543,026	860,371	1,778,825
Charges for services	316,189	-	-	69,495	385,684
Fines and forfeitures	50,773	-	-	10,828	61,601
Miscellaneous					
Investment and other interest income	37,181	(49)	14,558	25,484	77,174
Contributions and donations	50,370	-	-	26,591	76,961
Other	38,594	558	-	7,176	46,328
Total revenues	<u>4,550,788</u>	<u>509</u>	<u>557,584</u>	<u>3,079,583</u>	<u>8,188,464</u>
Expenditures					
Current					
General government	697,120	-	-	122,829	819,949
Public safety	2,112,301	-	-	39,885	2,152,186
Streets and highways	507,882	-	2,065	2,795	512,742
Culture and recreation	533,885	-	-	76,137	610,022
Economic development	139,539	-	-	651,945	791,484
Debt service					
Principal	8,114	-	-	2,036,101	2,044,215
Interest and other charges	3,500	-	-	526,334	529,834
Capital outlay					
General government	-	-	-	3,800	3,800
Public safety	21,099	-	-	51,049	72,148
Streets and highways	3,094	1,165,028	-	250,624	1,418,746
Culture and recreation	-	-	-	118,642	118,642
Economic development	-	-	-	211,006	211,006
Total expenditures	<u>4,026,534</u>	<u>1,165,028</u>	<u>2,065</u>	<u>4,091,147</u>	<u>9,284,774</u>
Excess of revenues over (under) expenditures	524,254	(1,164,519)	555,519	(1,011,564)	(1,096,310)
Other Financing Sources (Uses)					
Proceeds from sale of capital asset	3,188	-	-	6,925	10,113
Insurance recoveries	25,532	-	-	2,395	27,927
Transfers in	300,000	1,086,034	478,759	512,862	2,377,655
Transfers out	(648,259)	-	(1,086,034)	(65,398)	(1,799,691)
Total other financing sources (uses)	<u>(319,539)</u>	<u>1,086,034</u>	<u>(607,275)</u>	<u>456,784</u>	<u>616,004</u>
Net change in fund balances	204,715	(78,485)	(51,756)	(554,780)	(480,306)
Fund Balances					
Beginning of year	<u>3,024,172</u>	<u>(9,673)</u>	<u>1,391,406</u>	<u>6,114,580</u>	<u>10,520,485</u>
End of year	<u>\$ 3,228,887</u>	<u>\$ (88,158)</u>	<u>\$ 1,339,650</u>	<u>\$ 5,559,800</u>	<u>\$ 10,040,179</u>

**City of Big Lake
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended December 31, 2017**

Total net change in fund balances - governmental funds \$ (480,306)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	1,582,441
Depreciation expense	(1,378,961)

Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(55,854)
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Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.	2,044,215
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Governmental funds report the effects of bond premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	33,475
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	42,165
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Special assessments	(451,677)
Long-term notes receivable	(143,073)

Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(207,963)
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Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(29,712)
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Change in net position - governmental activities	\$ 954,750
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City of Big Lake
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 2,429,362	\$ 2,429,362	\$ 2,625,717	\$ 196,355
Franchise fees	380,000	380,000	434,945	54,945
Special assessments	1,500	1,500	2,149	649
Licenses and permits	373,925	418,425	619,442	201,017
Intergovernmental	403,494	403,494	375,428	(28,066)
Charges for services	280,488	280,488	316,189	35,701
Fines and forfeitures	37,000	37,000	50,773	13,773
Miscellaneous revenues				
Investment income	25,000	25,000	37,181	12,181
Contributions and donations	7,500	7,500	50,370	42,870
Other	27,000	27,000	38,594	11,594
Total revenues	<u>3,965,269</u>	<u>4,009,769</u>	<u>4,550,788</u>	<u>541,019</u>
Expenditures				
Current				
General government	727,208	731,308	697,120	(34,188)
Public safety	2,126,655	2,162,355	2,112,301	(50,054)
Streets and highways	604,131	604,131	507,882	(96,249)
Culture and recreation	567,317	567,317	533,885	(33,432)
Economic development	135,123	139,823	139,539	(284)
Debt service				
Principal	-	-	8,114	8,114
Interest and other charges	2,237	2,237	3,500	1,263
Capital outlay				
Public safety	10,000	10,000	21,099	11,099
Streets and highways	4,000	4,000	3,094	(906)
Total expenditures	<u>4,176,671</u>	<u>4,221,171</u>	<u>4,026,534</u>	<u>(194,637)</u>
Excess of revenues over (under) expenditures	(211,402)	(211,402)	524,254	735,656
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	3,000	3,000	3,188	188
Insurance recoveries	18,000	18,000	25,532	7,532
Transfers in	300,000	300,000	300,000	-
Transfers out	(109,598)	(109,598)	(648,259)	(538,661)
Total other financing sources (uses)	<u>211,402</u>	<u>211,402</u>	<u>(319,539)</u>	<u>(530,941)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	204,715	<u>\$ 204,715</u>
Fund Balances				
Beginning of year			<u>3,024,172</u>	
End of year			<u>\$ 3,228,887</u>	

City of Big Lake
Statement of Net Position - Proprietary Funds
December 31, 2017

	Water (301, 399)	Sewer (401, 499)	Liquor (501, 599)	Storm Sewer (601, 699)	Total
Assets					
Current assets					
Cash and cash equivalents	\$ 478,716	\$ 3,077,988	\$ 928,529	\$ 220,708	\$ 4,705,941
Accounts receivable	149,512	248,149	382	27,882	425,925
Advances to other funds - within one year	-	28,510	-	-	28,510
Due from other governments	164	205	-	39	408
Special assessment receivable					
Delinquent	13,025	5,892	-	914	19,831
Deferred	78,732	107,789	-	1,130	187,651
Inventories	-	-	511,566	-	511,566
Prepaid items	19,734	16,690	8,507	1,204	46,135
Total current assets	<u>739,883</u>	<u>3,485,223</u>	<u>1,448,984</u>	<u>251,877</u>	<u>5,925,967</u>
Noncurrent assets					
Restricted cash and cash equivalents	-	125,525	-	-	125,525
Advances to other funds - after one year	-	1,515,309	-	-	1,515,309
Capital assets					
Land	277,006	1,257,023	-	291	1,534,320
Buildings	9,651,417	15,996,156	1,915,613	84,905	27,648,091
Collection and distribution systems	16,750,392	22,811,429	-	6,718,991	46,280,812
Leasehold improvements	166,068	-	57,765	-	223,833
Machinery and equipment	317,158	528,850	199,395	301,727	1,347,130
Total capital assets	<u>27,162,041</u>	<u>40,593,458</u>	<u>2,172,773</u>	<u>7,105,914</u>	<u>77,034,186</u>
Less accumulated depreciation	(9,952,928)	(13,114,918)	(891,801)	(3,588,583)	(27,548,230)
Net capital assets	<u>17,209,113</u>	<u>27,478,540</u>	<u>1,280,972</u>	<u>3,517,331</u>	<u>49,485,956</u>
Total noncurrent assets	<u>17,209,113</u>	<u>29,119,374</u>	<u>1,280,972</u>	<u>3,517,331</u>	<u>51,126,790</u>
Total assets	<u>17,948,996</u>	<u>32,604,597</u>	<u>2,729,956</u>	<u>3,769,208</u>	<u>57,052,757</u>
Deferred Outflows of Resources					
Deferred outflows of resources related to city pensions	105,575	105,575	82,052	26,781	319,983
Total assets and deferred outflows of resources	<u>\$ 18,054,571</u>	<u>\$ 32,710,172</u>	<u>\$ 2,812,008</u>	<u>\$ 3,795,989</u>	<u>\$ 57,372,740</u>
Liabilities					
Current liabilities					
Accounts payable	\$ 37,176	\$ 165,232	\$ 58,817	\$ 1,395	\$ 262,620
Contracts payable	-	-	-	370	370
Salaries and benefits payable	8,239	8,239	7,236	2,109	25,823
Interest payable	59,510	153,404	5,960	-	218,874
Unearned revenue	-	22,355	-	-	22,355
Due to other governments	621	-	36,511	-	37,132
Current compensated absences	39,726	39,726	18,329	11,361	109,142
Amount due within one year	670,204	1,283,796	76,304	-	2,030,304
Total current liabilities	<u>815,476</u>	<u>1,672,752</u>	<u>203,157</u>	<u>15,235</u>	<u>2,706,620</u>
Noncurrent liabilities					
Advances from other funds	453,920	-	-	-	453,920
G.O. Revenue Bonds, net of unamortized premium	2,051,943	5,097,487	658,695	-	7,808,125
PFA G.O. Revenue note	3,677,000	10,113,000	-	-	13,790,000
Net pension liability	347,032	347,033	269,711	88,032	1,051,808
Less amount due within one year	(670,204)	(1,283,796)	(76,304)	-	(2,030,304)
Total noncurrent liabilities	<u>5,859,691</u>	<u>14,273,724</u>	<u>852,102</u>	<u>88,032</u>	<u>21,073,549</u>
Total liabilities	<u>6,675,167</u>	<u>15,946,476</u>	<u>1,055,259</u>	<u>103,267</u>	<u>23,780,169</u>
Deferred Inflows of Resources					
Deferred inflows of resources related to city pensions	64,579	64,579	50,190	16,382	195,730
Net Position					
Net investment in capital assets	11,480,170	12,268,053	622,277	3,517,331	27,887,831
Unrestricted	(165,345)	4,431,064	1,084,282	159,009	5,509,010
Total net position	<u>11,314,825</u>	<u>16,699,117</u>	<u>1,706,559</u>	<u>3,676,340</u>	<u>33,396,841</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 18,054,571</u>	<u>\$ 32,710,172</u>	<u>\$ 2,812,008</u>	<u>\$ 3,795,989</u>	<u>\$ 57,372,740</u>

City of Big Lake
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended December 31, 2017

	Water (301, 399)	Sewer (401, 499)	Liquor (501, 599)	Storm Sewer (601, 699)	Totals
Sales and cost of sales					
Sales	\$ -	\$ -	\$ 4,161,219	\$ -	\$ 4,161,219
Cost of sales	-	-	2,995,521	-	2,995,521
Gross profit	-	-	1,165,698	-	1,165,698
Operating revenues					
Charges for services	1,798,475	2,290,366	-	246,233	4,335,074
Operating expenses					
Wages and salaries	379,823	379,822	304,722	95,399	1,159,766
Employee benefits	169,024	170,253	59,204	42,237	440,718
Materials and supplies	40,255	64,478	8,643	1,040	114,416
Repairs and maintenance	18,567	31,667	18,838	4,716	73,788
Professional services	60,950	38,170	76,838	11,783	187,741
Insurance	29,219	25,105	12,639	1,631	68,594
Utilities and refuse	120,775	199,787	25,180	1,152	346,894
Depreciation	865,229	1,283,931	65,687	269,240	2,484,087
Travel	8,782	8,716	68	1,775	19,341
Bad debt expense	394	280	132	59	865
Equipment	75	-	38,342	-	38,417
Advertising	1,462	802	9,037	707	12,008
Dues, memberships, and training	10,033	7,000	5,609	1,103	23,745
Telephone	3,787	10,004	5,982	493	20,266
Postage	6,705	3,070	225	600	10,600
Water meters	32,950	-	-	-	32,950
Uniforms	1,195	1,983	306	264	3,748
Miscellaneous	35	30	1,440	-	1,505
Total operating expenses	1,749,260	2,225,098	632,892	432,199	5,039,449
Operating income (loss)	49,215	65,268	532,806	(185,966)	461,323
Nonoperating revenues (expenses)					
Investment and other interest income	2,442	73,757	5,540	1,819	83,558
Gain on sale of asset	500	500	-	-	1,000
Refunds and reimbursements	19,410	3,744	3,007	1,582	27,743
Trunk and access charges	392,280	1,757,326	-	8,500	2,158,106
Interest expense	(167,302)	(380,832)	(14,549)	-	(562,683)
Amortization expense	4,826	16,409	2,260	-	23,495
Rent	-	24,341	-	-	24,341
Other income	4,005	35	694	-	4,734
Total nonoperating revenues (expenses)	256,161	1,495,280	(3,048)	11,901	1,760,294
Income (loss) before capital contributions and transfers	305,376	1,560,548	529,758	(174,065)	2,221,617
Transfers out	(138,381)	(49,942)	(350,000)	(39,641)	(577,964)
Change in net position	166,995	1,510,606	179,758	(213,706)	1,643,653
Net position					
Beginning of year	11,147,830	15,188,511	1,526,801	3,890,046	31,753,188
End of year	\$ 11,314,825	\$ 16,699,117	\$ 1,706,559	\$ 3,676,340	\$ 33,396,841

See notes to financial statements.

City of Big Lake
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2017

	Water (301, 399)	Sewer (401, 499)	Liquor (501, 599)	Storm Sewer (601, 699)	Total
Cash Flows - Operating Activities					
Receipts from customers and users	\$ 1,796,576	\$ 2,352,692	\$ 4,161,606	\$ 242,971	\$ 8,553,845
Payments to suppliers	(334,871)	(263,029)	(3,038,410)	(26,552)	(3,662,862)
Payments to employees	(503,811)	(505,038)	(396,545)	(128,140)	(1,533,534)
Net cash flows - operating activities	<u>957,894</u>	<u>1,584,625</u>	<u>726,651</u>	<u>88,279</u>	<u>3,357,449</u>
Cash Flows - Noncapital					
Financing Activities					
Payment of advances to other funds	-	132,355	-	-	132,355
Receipt of advances from other funds	(100,000)	-	-	-	(100,000)
Refunds and reimbursements	19,410	3,744	3,007	1,582	27,743
Rent	-	24,341	-	-	24,341
Transfer to other funds	(138,381)	(49,942)	(350,000)	(39,641)	(577,964)
Net cash flows - noncapital financing activities	<u>(218,971)</u>	<u>110,498</u>	<u>(346,993)</u>	<u>(38,059)</u>	<u>(493,525)</u>
Cash Flows - Capital and Related					
Financing Activities					
Trunk and access charges	392,280	1,757,326	-	8,500	2,158,106
Principal paid on debt	(650,004)	(1,358,996)	(72,670)	-	(2,081,670)
Interest paid on debt	(174,080)	(394,353)	(15,002)	-	(583,435)
Proceeds from sale of capital assets	500	500	-	-	1,000
Acquisition of capital assets	(14,972)	(59,877)	-	370	(74,479)
Net cash flows - capital and related financing activities	<u>(446,276)</u>	<u>(55,400)</u>	<u>(87,672)</u>	<u>8,870</u>	<u>(580,478)</u>
Cash Flows - Investing Activities					
Interest and dividends received	<u>2,537</u>	<u>73,757</u>	<u>5,540</u>	<u>1,818</u>	<u>83,652</u>
Net change in cash and cash equivalents	295,184	1,713,480	297,526	60,908	2,367,098
Cash and Cash Equivalents, January 1	<u>183,532</u>	<u>1,490,033</u>	<u>631,003</u>	<u>159,800</u>	<u>2,464,368</u>
Cash and Cash Equivalents, December 31	<u>\$ 478,716</u>	<u>\$ 3,203,513</u>	<u>\$ 928,529</u>	<u>\$ 220,708</u>	<u>\$ 4,831,466</u>
Reconciliation of Operating					
Income (Loss) to Net Cash Flows -					
Operating Activities					
Operating income (loss)	\$ 49,215	\$ 65,268	\$ 532,806	\$ (185,966)	\$ 461,323
Adjustments to reconcile operating					
Income (loss) to net cash flows -					
Operating activities					
Other revenues	4,005	35	694	-	4,734
Depreciation expense	865,229	1,283,931	65,687	269,240	2,484,087
Net pension liability expense	35,974	35,975	(19,600)	7,822	60,171
Accounts receivable	(16,965)	26,074	(307)	(3,462)	5,340
Special assessments receivable	11,170	21,815	-	230	33,215
Due from other governments	(109)	(150)	-	(30)	(289)
Prepaid items	602	800	52	73	1,527
Inventory	-	-	176,464	-	176,464
Accounts payable	(249)	127,263	(15,263)	(1,302)	110,449
Due to other governmental units	(40)	-	(863)	-	(903)
Salaries payable	764	764	(25,745)	202	(24,015)
Unearned revenue	-	14,552	-	-	14,552
Compensated absences payable	8,298	8,298	12,726	1,472	30,794
Total adjustments	<u>908,679</u>	<u>1,519,357</u>	<u>193,845</u>	<u>274,245</u>	<u>2,896,126</u>
Net cash flows - operating activities	<u>\$ 957,894</u>	<u>\$ 1,584,625</u>	<u>\$ 726,651</u>	<u>\$ 88,279</u>	<u>\$ 3,357,449</u>

City of Big Lake
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2017

	<u>Agency</u>
Assets	
Cash and investments	<u>\$ 242,260</u>
Liabilities	
Accounts payable	<u>\$ 242,260</u>

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Big Lake is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Blended Component Unit – Reported as if it is part of the City.

Related Organization – The relationship of the City with the entity is disclosed.

Joint Ventures and Jointly Governed Organization – The relationship of the City with the entity is disclosed.

For each of the categories above, the specific entities are identified as follows:

1. Blended Component Unit

The Big Lake Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Big Lake EDA is reported as if it were part of the primary government because the component unit's total debt outstanding is expected to be repaid almost entirely with resources of the primary government. Separate financial statements are not prepared for the Big Lake EDA.

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

2. Related Organization

Big Lake Volunteer Fire Relief Association

The Big Lake Volunteer Fire Relief Association (the "Association") is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with *Minnesota Statutes*. The Association's Board of Trustees is appointed by the membership of the Association and not by the City Council. All funding is conducted in accordance with *Minnesota Statutes*, whereby state aid flows to the Association, tax levies are determined by the Association and are only reviewed by the City and the Association pays benefits directly to its members. The Association may certify tax levies to Sherburne County directly if the City does not carry out this function. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity.

3. Joint Ventures and Jointly Governed Organization

Big Lake Volunteer Fire Department

The Big Lake Volunteer Fire Department (the "Fire Department") was created to provide fire services to the residents of the City, the Township of Big Lake and the Town of Orrock, Minnesota. The City currently funds approximately 50% of the Fire Department's budget.

The activity of the Fire Department is shown as part of the General Fund in the City's financial statements. Separate financial statements for the Fire Department are not 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. 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 are not included among program revenues, instead, they are properly reported as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

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.

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 and fiduciary 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, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current 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.

Description of Funds:

Major Governmental Fund:

General Fund – This fund is the City's primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

Street Improvement Capital Projects Fund – This fund accounts for all the costs associated with street improvements within the City.

Infrastructure Improvement Capital Projects Fund – This fund accounts for all the costs associated with infrastructure improvements within the City.

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Description of Funds (Continued):

Proprietary Funds:

Water Fund – This fund accounts for the operations of the City's water utility.

Sewer Fund – This fund accounts for the operations of the City's sanitary sewer utility.

Liquor Fund – This fund accounts for the activities of the City's liquor store operations.

Storm Sewer Fund – This fund accounts for the operations of the City's storm sewer utility.

Fiduciary Funds:

Seed, Sod, and Tree Preservation Escrow Agency Fund – This fund accounts for the amounts related to funds used to ensure lots have been seeded or sodded upon completion of project. The balance in this fund is to be returned to the developer once the project is completed.

Temp Sign Permit Escrow Agency Fund – This fund accounts for the amounts related to funds used for temporary sign permits. The balance in this fund is to be returned to the developer once the project is completed.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 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 on 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 they are needed. Further, the City applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Investments

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. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

Certain investments for the City are reported at fair value as disclosed in Note 3. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In accordance with GASB Statement No. 79, the Minnesota Municipal Investment Pool securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days' interest on the amount withdrawn.

2. Cash with Fiscal Agent

Certain resources from the 2016A Taxable G.O. Refunding Bonds are set aside for their repayment of the 2004C G.O. Tax Increment Bonds in accordance with the refunding bond documents. Additionally, certain resources from the 2016C G.O. Improvement Crossover Refunding Bonds are set aside for their repayment of the 2010A G.O. Improvement Bonds in accordance with the refunding bond documents.

3. Restricted Cash

Resources are restricted within the Sewer Fund for the solar garden decomposition escrow deposit.

4. Receivables/Property Taxes

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of the property.

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

4. Receivables/Property Taxes

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Sherburne County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

5. Inventory and 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. Prepaid items are recorded as an expenditure at the time of consumption.

Inventory is valued at cost using the first-in, first-out (FIFO) method. Inventories are recorded as expenses when consumed rather than when purchased.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, 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 City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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 asset lives are not capitalized.

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

6. Capital Assets (Continued)

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30
Leasehold improvements	10-30
Machinery and equipment	5-10
Utility collection and distribution system	30
Infrastructure	30

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred outflows of resources on the Statements of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has four types of items that qualify for reporting in this category. Three of the items reported only arise under the modified accrual basis of accounting and are reported only in the Governmental Funds Balance Sheet as unavailable revenue. The governmental funds report unavailable revenues from three sources: notes receivable, property taxes, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City presents deferred inflows of resources on the Statements of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

8. Pensions

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

9. Compensated Absences

Employees who retire are compensated for their unused sick leave. After 800 hours have accrued, employees can either take vacation or get paid for half of every hour earned in excess of 800 hours on an annual basis. Upon separation from the City, employees are eligible to 20 days of sick leave to be paid out, if they have 10 years of employment.

In addition, employees are granted vacation based on their years of service. Employees can accrue up to 25 days of vacation. At year-end, any hours over 200 are forfeited. All employees will receive a lump sum payment for the balance of accumulated vacation leave upon a voluntary termination.

10. Severance

Severance benefits are paid upon termination of employment for the City Administrator. The City Administrator receives three months of salary and benefits in a lump sum payment.

11. 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 Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

12. Fund Equity

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (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.
- Assigned fund balance – these are amounts that are constrained by the city's intent to be used for specific purposes but are neither restricted nor committed. Assignments may be made by the city's finance director based on the city council's delegation.
- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

b. Minimum Fund Balance

The City will strive to maintain an unrestricted fund balance of an amount not less than 50% of the next year's budgeted expenditures in the General Fund.

City of Big Lake
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

13. Net Position

Net Position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

14. Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

15. Budgetary Information

The City Council adopts an annual budget. The amounts shown in the financial statements as "budget" represent the original budgeted amounts and all revisions made during the year. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Budget requests are submitted by all department heads to the City Administrator and Finance Director. The Finance Director compiles the budget requests into an overall preliminary City budget.
2. The Finance Director presents the proposed budget to the City Council. The budget resolution adopted by the City Council sets forth the budgets at the function level for the General and Special Revenue Funds.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund and the EDA Special Revenue Fund. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through G.O. bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls.
4. The budgets for the General Fund and the EDA Special Revenue Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at year-end.

**City of Big Lake
Notes to Financial Statements**

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balances

The following Funds had deficit fund balances at December 31, 2017:

Major Governmental Funds	
Street Improvement	\$ 88,158
Non-major Governmental Funds	
Veterans Memorial Fund	19,099
G.O. Tax Increment Bonds of 2004C	3,849
Industrial Park Expansion Land Purchase	29,110

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council.

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy states all deposits will be insured or collateralized in accordance with *Minnesota Statutes* 118.A. At December 31, 2017, the City's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by pledging financial institutions trust department or agent and in the City's name.

Checking	\$ 44,070
Savings	20,032
Certificates of deposit	<u>3,247,192</u>
 Total	 <u><u>\$ 3,311,294</u></u>

City of Big Lake
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

At December 31, 2017, the City had the following investments:

Investment Type	Total Fair Value	Investment Maturities			
		Less Than One Year	1-2 Years	2-5 years	5+ years
Pooled Investments					
Brokered Certificates of Deposit	\$ 3,069,222	\$ 394,920	\$ 644,217	\$ 1,642,360	\$ 387,725
Cash and Brokered Money Market Accounts	18,691	18,691	-	-	-
4M Fund	3,231,756	3,231,756	-	-	-
4M Plus	3,779,968	3,779,968	-	-	-
Total	10,099,637	7,425,335	644,217	1,642,360	387,725
Non-Pooled Investments					
FNMA	549,593	-	549,593	-	-
Treasury Notes	104,635	6,995	97,640	-	-
U.S. Treasury State and Local Government Series Time Deposit	1,861,845	24,526	1,837,319	-	-
Total	2,516,073	31,521	2,484,552	-	-
Total Investments	\$ 12,615,710	\$ 7,456,856	\$ 3,128,769	\$ 1,642,360	\$ 387,725

The City has the following recurring fair value measurements as of December 31, 2017:

- \$2,516,073 of investments are valued using quoted market prices (Level 1 inputs)
- \$3,069,222 of investments are valued using a matrix pricing model (Level 2 inputs)

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City will minimize interest rate risk by reviewing cash flow requirements and making investments to meet the shorter cash flow needs, thereby avoiding the need to sell securities in the open market prior to maturity. It also includes specific limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates. The average maturity of the overall portfolio is to be consistent with the risk profile of the City not to extend beyond seven years.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits its investments to those specified in these Statutes, and furthermore specified based on the list in their investment policy. As of December 31, 2017, the City's investment in FNMA was rated Aaa by Moody's.

Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The City's investment policy states that they will diversify the investment portfolio so the impact of potential losses from any one type of security or from any individual issuer will be minimized. As of December 31, 2017, the City's investments in FNMA were 21.8% of the total nonpooled investments.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy states that the City Finance Director shall maintain a list of financial institutions authorized to provide investment services. Financial service providers who wish to offer investments must provide the City Finance Director with a list of items before they become authorized.

Summary of cash, deposits, and investments as of December 31, 2017:

Petty cash	\$ 2,430
Deposits (Note 3.A.)	3,311,294
Investments (Note 3.B.)	<u>12,615,710</u>
Total deposits and investments	<u>\$ 15,929,434</u>

Cash, deposits, and investments are presented in the December 31, 2017, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 13,171,101
Cash with fiscal agent	2,516,073
Statement of Fiduciary Net Position	
Cash and investments	<u>242,260</u>
Total	<u>\$ 15,929,434</u>

**City of Big Lake
Notes to Financial Statements**

NOTE 4 – NOTES RECEIVABLE

Governmental funds notes receivable includes receivables from the Big Lake Township for their portion of debt payments on the Taxable G.O. Refunding Bonds, Series 2016A, for \$445,000, and the G.O. Capital Improvement Bonds of 2012A for fire hall funding amounting to \$100,000. Other receivables due to the Big Lake EDA from local businesses include amounts issued through a grant from the Department of Employment and Economic Development (DEED) and totaled \$1,000, for a grand total of notes receivable of \$546,000.

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Advances to/from Other Funds

The composition of advances as of December 31, 2017, was as follows:

	Advances from		
	Infrastructure Improvement Fund	Sewer Fund	Total
Advances to			
General Fund	\$ -	\$ 28,510	\$ 28,510
Other Governmental Funds	19,099	1,061,389	1,080,488
Water Fund	-	453,920	453,920
Total	<u>\$ 19,099</u>	<u>\$ 1,543,819</u>	<u>\$ 1,562,918</u>

The amounts due to the Sewer Fund represent interfund loans to absorb temporary negative cash balances and to temporarily fund capital projects. \$28,510 of this balance is due within one year.

The amounts due to the Infrastructure Improvement Fund represent a loan to cover the Veterans Memorial.

City of Big Lake
Notes to Financial Statements

NOTE 5 – INTERFUND BALANCES AND TRANSFERS (CONTINUED)

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2017, was as follows:

	Transfers In				Total
	General Fund	Street Improvement	Infrastructure Improvements	Other Governmental Funds	
Transfers out					
General Fund	\$ -	\$ -	\$ 330,000	\$ 318,259	\$ 648,259
Infrastructure Improvement	-	1,086,034	-	-	1,086,034
Other Governmental Funds	-	-	21,032	44,366	65,398
Water Fund	-	-	77,727	60,654	138,381
Sewer Fund	-	-	-	49,942	49,942
Liquor Fund	300,000	-	50,000	-	350,000
Storm Sewer Fund	-	-	-	39,641	39,641
	<u>\$ 300,000</u>	<u>\$ 1,086,034</u>	<u>\$ 478,759</u>	<u>\$ 512,862</u>	<u>\$ 2,377,655</u>

The above transfers were made for the following reasons: debt service payments, operating transfers to cover Tax Increment Financing (TIF) administrative expenditures, capital projects, closing funds, and other administrative items.

**City of Big Lake
Notes to Financial Statements**

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 8,025,819	\$ -	\$ -	\$ 8,025,819
Construction in progress	171,816	1,154,538	-	1,326,354
Total capital assets not being depreciated	<u>8,197,635</u>	<u>1,154,538</u>	<u>-</u>	<u>9,352,173</u>
Capital assets being depreciated				
Infrastructure	37,164,549	-	-	37,164,549
Buildings	4,979,619	-	-	4,979,619
Leasehold improvements	71,543	-	-	71,543
Machinery and equipment	3,977,154	427,903	158,714	4,246,343
Total capital assets being depreciated	<u>46,192,865</u>	<u>427,903</u>	<u>158,714</u>	<u>46,462,054</u>
Less accumulated depreciation for				
Infrastructure	19,372,987	1,051,562	-	20,424,549
Buildings	1,833,883	165,782	-	1,999,665
Leasehold improvements	33,003	3,577	-	36,580
Machinery and equipment	3,498,997	158,040	158,714	3,498,323
Total accumulated depreciation	<u>24,738,870</u>	<u>1,378,961</u>	<u>158,714</u>	<u>25,959,117</u>
Total capital assets being depreciated, net	<u>21,453,995</u>	<u>(951,058)</u>	<u>-</u>	<u>20,502,937</u>
Governmental activities capital assets, net	<u>\$ 29,651,630</u>	<u>\$ 203,480</u>	<u>\$ -</u>	<u>\$ 29,855,110</u>

City of Big Lake
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 1,534,320	\$ -	\$ -	\$ 1,534,320
Capital assets being depreciated				
Buildings	27,648,091	-	-	27,648,091
Collection and distribution systems	46,280,812	-	-	46,280,812
Leasehold improvements	223,833	-	-	223,833
Machinery and equipment	1,316,054	74,849	43,773	1,347,130
Total capital assets being depreciated	<u>75,468,790</u>	<u>74,849</u>	<u>43,773</u>	<u>75,499,866</u>
Less accumulated depreciation for				
Buildings	4,642,836	921,603	-	5,564,439
Collection and distribution systems	19,396,927	1,492,710	-	20,889,637
Leasehold improvements	125,967	6,042	-	132,009
Machinery and equipment	942,186	63,732	43,773	962,145
Total accumulated depreciation	<u>25,107,916</u>	<u>2,484,087</u>	<u>43,773</u>	<u>27,548,230</u>
Total capital assets being depreciated, net	<u>50,360,874</u>	<u>(2,409,238)</u>	<u>-</u>	<u>47,951,636</u>
Business-type activities capital assets, net	<u>\$ 51,895,194</u>	<u>\$ (2,409,238)</u>	<u>\$ -</u>	<u>\$ 49,485,956</u>

City of Big Lake
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities	
General government	\$ 28,560
Public safety	143,101
Streets and highways	1,014,649
Culture and recreation	143,517
Economic development	<u>49,134</u>
Total depreciation expense - governmental activities	<u><u>\$ 1,378,961</u></u>
Business-type activities	
Water	\$ 865,229
Sewer	1,283,931
Liquor	65,687
Storm sewer	<u>269,240</u>
Total depreciation expense - business-type activities	<u><u>\$ 2,484,087</u></u>

NOTE 7 – LONG-TERM DEBT

A. General Obligation Bonds

The City issues General Obligation (G.O.) bonds to provide for financing the construction of street improvements, tax increment projects and to refinance (refund) previous bond issues. Debt service is covered respectively by tax increments, revenue generated from projects and special assessments against benefited properties with any shortfalls being paid from general taxes.

G.O. bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 15 year serial bonds with equal debt service payments each year.

On April 27, 2016, the City issued \$2,885,000 Taxable G.O. Refunding Bonds, Series 2016A for the crossover refunding of a portion of the \$795,000 G.O. Tax Increment Bonds, Series 2004C, current refunding of the \$1,055,000 Taxable G.O. Tax Increment Refunding Bonds, Series 2013A, and current refunding of the \$2,220,000 Taxable G.O. Tax Abatement Bonds, Series 2013B. The principal balances of both the refunded and refunding bonds are reported as long-term debt of the City until the call date of the refunded bonds, at which time the refunded bonds will be considered defeased and the related liability will be removed from the Statement of Net Position. The call date for the 2004C Bonds is February 1, 2019, while the 2013A, and 2013B bonds was February 1, 2016. These bonds were refunded on April 27, 2016. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of \$208,809. The net present value cash flow savings from the transaction was \$178,839.

City of Big Lake
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

A. General Obligation Bonds (Continued)

On September 15, 2016, the City issued \$1,875,000 G.O. Improvement Crossover Refunding Bonds, Series 2016C for the crossover refunding of a portion of the \$3,590,000 G.O. Improvement Bonds, Series 2010A. The principal balances of both the refunded and refunding bonds are reported as long-term debt of the City until the call date of the refunded bonds, at which time the refunded bonds will be considered defeased and the related liability will be removed from the Statement of Net Position. The call date for the 2010A bonds is February 1, 2019. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of \$77,711. The net present value cash flow savings from the transaction was \$70,029

B. Components of Long-Term Liabilities

	Issue Year	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
Governmental activities						
G.O. Bonds, including Refunding bonds						
G.O. Improvement Bonds of 2010A	2010	2.00% - 3.80%	\$ 3,590,000	2026	\$ 2,345,000	\$ 255,000
G.O. Refunding Improvement Bonds of 2011A	2011	0.40% - 2.45%	2,095,000	2020	930,000	210,000
G.O. Refunding Improvement Bonds of 2011B	2011	2.00% - 2.80%	3,415,000	2022	1,890,000	400,000
G.O. Refunding Bonds of 2012A	2012	2.00%-2.70%	1,040,000	2026	470,000	195,000
G.O. Refunding Bonds of 2015A	2015	2.00%-3.00%	4,330,000	2029	3,855,000	485,000
G.O. Capital Improvement Bonds of 2016B	2016	1.00%-2.25%	590,000	2028	545,000	45,000
G.O. Refunding Improvement Bonds of 2016C	2016	2.00%	1,875,000	2026	1,875,000	-
Tax Abatement Bonds						
Taxable G.O. Tax Abatement Bonds of 2014A	2014	1.50%-2.50%	296,530	2025	241,870	28,697
G.O. Tax Increment Bonds						
G.O. Tax Increment Bonds of 2004	2004	5.00%-5.90%	795,000	2030	695,000	20,000
Taxable G.O. Refunding Bonds						
Taxable G.O. Refunding Bond of 2016A	2016	0.90%-3.10%	2,885,000	2030	2,665,000	205,000
Notes payable						
Transportation Revolving Loan Fund	2010	1.726%	2,465,000	2029	1,643,000	124,000
					<u>17,154,870</u>	<u>1,967,697</u>
Premium on bonds payable					319,945	-
Capital Lease					39,801	15,871
Severance					39,621	-
Compensated absences					218,860	218,860
Total governmental activities					<u>17,773,097</u>	<u>2,202,428</u>
Business-type activities						
G.O. Revenue Bonds and Notes, including Refunding Bonds						
Public Facility Authority Drinking Water G.O. Revenue Note	2004	2.53%	9,787,000	2024	3,677,000	487,000
Public Facility Authority Drinking Sewer Revenue Note of 2009	2009	2.41%	13,470,120	2024	10,113,000	737,000
G.O. Refunding Bonds of 2012A	2012	2.00%-2.70%	3,745,000	2026	2,290,000	400,000
Taxable G.O. Tax Abatement Bonds of 2014A	2014	1.50%-2.50%	788,470	2025	643,130	76,304
G.O. Refunding Bonds of 2015A	2015	2.00%-3.00%	4,955,000	2029	4,640,000	330,000
					<u>21,363,130</u>	<u>2,030,304</u>
Premium on bonds payable					234,995	-
Compensated absences					109,142	109,142
Total business-type activities					<u>21,707,267</u>	<u>2,139,446</u>
Total all long-term liabilities					<u>\$ 39,480,364</u>	<u>\$ 4,341,874</u>

City of Big Lake
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
G.O. Improvement Bonds	\$ 13,555,000	\$ -	\$ 1,645,000	\$ 11,910,000	\$ 1,590,000
G.O. Revenue /Tax Abatement Bonds	269,200	-	27,330	241,870	28,697
Taxable G.O. Refunding Bonds	2,885,000	-	220,000	2,665,000	205,000
G.O. Tax Increment Bonds	710,000	-	15,000	695,000	20,000
Notes payable	1,765,000	-	122,000	1,643,000	124,000
Capital lease	54,686	-	14,885	39,801	15,871
Premium on bonds	353,420	-	33,475	319,945	-
Total bonds payable	<u>19,592,306</u>	<u>-</u>	<u>2,077,690</u>	<u>17,514,616</u>	<u>1,983,568</u>
Compensated absences	164,865	315,420	261,425	218,860	218,860
Severance	37,762	1,859	-	39,621	-
Total governmental activities	<u>19,794,933</u>	<u>317,279</u>	<u>2,339,115</u>	<u>17,773,097</u>	<u>2,202,428</u>
Business-type activities					
Bonds payable					
G.O. Revenue Bonds	8,460,800	-	887,670	7,573,130	806,304
PFA G.O. Revenue Notes	14,984,000	-	1,194,000	13,790,000	1,224,000
Premium on bonds	258,490	-	23,495	234,995	-
Total bonds payable	<u>23,703,290</u>	<u>-</u>	<u>2,105,165</u>	<u>21,598,125</u>	<u>2,030,304</u>
Compensated absences	78,348	57,592	26,798	109,142	109,142
Total business-type activities	<u>23,781,638</u>	<u>57,592</u>	<u>2,131,963</u>	<u>21,707,267</u>	<u>2,139,446</u>
Total long-term liabilities	<u>\$ 43,576,571</u>	<u>\$ 374,871</u>	<u>\$ 4,471,078</u>	<u>\$ 39,480,364</u>	<u>\$ 4,341,874</u>

The General Fund typically liquidates the compensated absences and severance payable.

**City of Big Lake
Notes to Financial Statements**

NOTE 7 – LONG-TERM DEBT (CONTINUED)

D. Minimum Debt Payments

Minimum annual principal and interest payments required to retire non-compensated absence liabilities:

Year Ending December 31,	Governmental Activities					
	G.O. Bonds			G.O. Tax Abatement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 1,590,000	\$ 289,733	\$ 1,879,733	\$ 28,697	\$ 5,104	\$ 33,801
2019	3,455,000	219,275	3,674,275	27,330	4,544	31,874
2020	1,650,000	146,936	1,796,936	30,063	3,970	34,033
2021	1,260,000	109,842	1,369,842	30,063	3,368	33,431
2022	1,070,000	79,109	1,149,109	30,063	2,730	32,793
2023-2027	2,755,000	120,588	2,875,588	95,654	3,621	99,275
2028	130,000	1,563	131,563	-	-	-
Total	<u>\$ 11,910,000</u>	<u>\$ 967,046</u>	<u>\$ 12,877,046</u>	<u>\$ 241,870</u>	<u>\$ 23,337</u>	<u>\$ 265,207</u>

Year Ending December 31,	Governmental Activities					
	G.O. Tax Increment Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 20,000	\$ 39,793	\$ 59,793	\$ 124,000	\$ 28,358	\$ 152,358
2019	675,000	19,621	694,621	127,000	26,218	153,218
2020	-	-	-	129,000	24,026	153,026
2021	-	-	-	131,000	21,800	152,800
2022	-	-	-	133,000	19,538	152,538
2023-2027	-	-	-	701,000	62,444	763,444
2028-2029	-	-	-	298,000	7,734	305,734
Total	<u>\$ 695,000</u>	<u>\$ 59,414</u>	<u>\$ 754,414</u>	<u>\$ 1,643,000</u>	<u>\$ 190,118</u>	<u>\$ 1,833,118</u>

Year Ending December 31,	Taxable G.O. Refunding Bond			Total Governmental Activities		
	Principal	Interest	Total	Principal	Interest	Total
	2018	\$ 205,000	\$ 57,503	\$ 262,503	\$ 1,967,697	\$ 420,491
2019	210,000	54,958	264,958	4,494,330	324,616	4,818,946
2020	250,000	51,477	301,477	2,059,063	226,409	2,285,472
2021	270,000	46,917	316,917	1,691,063	181,927	1,872,990
2022	270,000	41,720	311,720	1,503,063	143,097	1,646,160
2023-2027	1,095,000	122,568	1,217,568	4,646,654	309,221	4,955,875
2028-2030	365,000	13,872	378,872	793,000	23,169	816,169
Total	<u>\$ 2,665,000</u>	<u>\$ 389,015</u>	<u>\$ 3,054,015</u>	<u>\$ 17,154,870</u>	<u>\$ 1,628,930</u>	<u>\$ 18,783,800</u>

City of Big Lake
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

D. Minimum Debt Payments (Continued)

Year Ending December 31,	Business-Type Activities					
	G.O. Revenue Bonds			Public Facility G.O. Revenue Note		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 806,304	\$ 179,573	\$ 985,877	\$ 1,224,000	\$ 337,156	\$ 1,561,156
2019	812,670	160,058	972,728	1,253,000	307,044	1,560,044
2020	854,937	139,958	994,895	1,285,000	276,218	1,561,218
2021	599,937	121,679	721,616	1,316,000	244,602	1,560,602
2022	614,937	105,411	720,348	1,348,000	212,226	1,560,226
2023-2027	2,969,345	289,203	3,258,548	5,471,000	591,422	6,062,422
2028-2029	915,000	24,807	939,807	1,893,000	68,824	1,961,824
Total	<u>\$ 7,573,130</u>	<u>\$ 1,020,689</u>	<u>\$ 8,593,819</u>	<u>\$ 13,790,000</u>	<u>\$ 2,037,492</u>	<u>\$ 15,827,492</u>

Year Ending December 31,	Business-Type Activities		
	Total Business-Type Activities		
	Principal	Interest	Total
2018	\$ 2,030,304	\$ 516,729	\$ 2,547,033
2019	2,065,670	467,102	2,532,772
2020	2,139,937	416,176	2,556,113
2021	1,915,937	366,281	2,282,218
2022	1,962,937	317,637	2,280,574
2023-2027	8,440,345	880,625	9,320,970
2028-2029	2,808,000	93,631	2,901,631
Total	<u>\$ 21,363,130</u>	<u>\$ 3,058,181</u>	<u>\$ 24,421,311</u>

E. Capital Lease

On September 15, 2016, the City entered into a lease purchase agreement for portable radios. The capital lease obligation totaled \$39,746. The capital lease agreement includes annual principal and interest payment ranging from \$4,205 to \$8,883 and final payment on September 15, 2021.

On December 14, 2016, the city entered into a lease purchase agreement for a 2017 Ford Interceptor. The capital lease obligation totaled \$26,213. The capital lease agreement includes annual principal and interest payment of \$9,377 and final payment on December 14, 2018.

City of Big Lake
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

E. Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments are listed below.

Year Ending December 31,		
2018	\$	18,260
2019		8,883
2020		8,883
2021		8,883
Total minimum lease payments		44,909
Less amount representing interest		(5,108)
Present value of net minimum lease payments	\$	39,801

The assets purchased through the 2016 lease for portable radios did not meet the threshold for capitalization and are not included in capital assets, therefore there is no depreciation or net value to report.

The asset purchased through the 2016 Ford Interceptor lease is classified as machinery and equipment and totaled \$37,602. The associated accumulated depreciation for this asset is \$8,147, for a net value of \$29,455. The asset added through this lease exceeds the lease amount since the asset was also financed with other revenue sources.

**City of Big Lake
Notes to Financial Statements**

NOTE 8 – FUND BALANCE DETAIL

Fund equity balances are classified as follows on the chart below to reflect the limitations and restrictions of the respective funds.

	General	Street Improvement	Infrastructure Improvement	Nonmajor Governmental Fund	Total
Nonspendable					
Land held for resale	\$ -	\$ -	\$ -	\$ 784,100	\$ 784,100
Prepaid items	88,501	-	-	407	88,908
Total nonspendable	<u>88,501</u>	<u>-</u>	<u>-</u>	<u>784,507</u>	<u>873,008</u>
Restricted					
Debt service	-	-	-	4,360,357	4,360,357
Park development	-	-	-	137,095	137,095
TIF	-	-	-	156,018	156,018
Police traffic safety	-	-	-	855	855
DWI forfeiture	-	-	-	5,175	5,175
Farmers market	-	-	-	9,942	9,942
Narcotic forfeiture	-	-	-	2,918	2,918
Total restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,672,360</u>	<u>4,672,360</u>
Assigned					
Local development	-	-	-	125,102	125,102
Capital infrastructure replacement	-	-	1,339,650	-	1,339,650
Fire capital purchases	12,985	-	-	-	12,985
Police capital purchases	42,674	-	-	-	42,674
Equipment and building replacements	-	-	-	765,006	765,006
Parks capital purchases	56,946	-	-	-	56,946
Wellness program	1,858	-	-	-	1,858
ECFE - Reading in the park program	25,096	-	-	-	25,096
Movie in the park program	2,849	-	-	-	2,849
Administrative purchases	7,605	-	-	-	7,605
Total assigned	<u>150,013</u>	<u>-</u>	<u>1,339,650</u>	<u>890,108</u>	<u>2,379,771</u>
Unassigned	<u>2,990,373</u>	<u>(88,158)</u>	<u>-</u>	<u>(787,175)</u>	<u>2,115,040</u>
Total	<u>\$ 3,228,887</u>	<u>\$ (88,158)</u>	<u>\$ 1,339,650</u>	<u>\$ 5,559,800</u>	<u>\$ 10,040,179</u>

NOTE 9 – RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining, through commercial companies, for excess claims. The City is covered through the pool for any claims incurred but unreported; however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

City of Big Lake
Notes to Financial Statements

NOTE 9 – RISK MANAGEMENT (CONTINUED)

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2017 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2017, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 10 – PENSION PLANS

The City participates in various pension plans. Total pension expense for the year ended December 31, 2017 was \$569,977. The components of pension expense are noted in the following plan summaries.

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

**City of Big Lake
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

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

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

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

General Employees Plan Benefits

General Employees Plan 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 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 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 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.

Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

City of Big Lake
Notes to Financial Statements

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions (Continued)

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in calendar year 2017. The City was required to contribute 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were \$158,725. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City was required to contribute 16.2% of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$141,471. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$1,998,171 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$25,092. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion share was 0.0313%, which was an increase of 0.0008% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$314,309 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$725 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

City of Big Lake
Notes to Financial Statements

NOTE 10 –PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

At December 31, 2017, the City reported its proportionate share of the General Employees Plan'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	\$ 65,853	\$ 122,214
Changes in actuarial assumptions	323,260	200,316
Difference between projected and actual investment earnings	-	4,681
Changes in proportion	139,411	44,626
Contributions paid to PERA subsequent to the measurement date	79,363	-
	<u>607,887</u>	<u>371,837</u>
Total	<u>\$ 607,887</u>	<u>\$ 371,837</u>

\$79,363 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2018	\$ 98,655
2019	166,797
2020	(23,947)
2021	(84,818)
	<u>156,687</u>
Total	<u>\$ 156,687</u>

**City of Big Lake
Notes to Financial Statements**

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs

At December 31, 2017, the City reported a liability of \$1,093,596 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0810%, which was a decrease of 0.0070% from its proportion measured as of June 30, 2016. The City also recognized \$7,290 for the year ended December 31, 2017 as revenue and an offsetting reduction of the net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2017, the City recognized pension expense of \$271,937 for its proportionate share of the Police and Fire Fund pension expense.

At December 31, 2017, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the sources below and on the following page.

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 25,172	\$ 316,519
Changes in actuarial assumptions	1,554,872	1,552,635
Difference between projected and actual investment earnings	45,319	-
Changes in proportion	34,576	234,100
Contributions paid to PERA subsequent to the measurement date	<u>70,736</u>	<u>-</u>
Total	<u>\$ 1,730,675</u>	<u>\$ 2,103,254</u>

**City of Big Lake
Notes to Financial Statements**

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs (Continued)

\$70,736 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2018	\$ 18,531
2019	18,532
2020	(24,528)
2021	(103,538)
2022	<u>(352,312)</u>
Total	<u>\$ (443,315)</u>

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees plan through 2044 and the Police and Fire Plan through 2064 and then 2.5% thereafter for both plans.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire Plan was completed in 2016.

City of Big Lake
Notes to Financial Statements

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability, and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1% per year for all years to 1% per year through 2044 and 2.5% per year thereafter.

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be 3 years younger) and female members (husbands assumed to be 4 years older) to the assumption that males are 2 years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.5% thereafter.

**City of Big Lake
Notes to Financial Statements**

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39 %	5.10 %
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00
Total	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on those assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Big Lake
Notes to Financial Statements**

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proprionate share of the General Employees Fund net pension liability	\$ 3,099,312	\$ 1,998,171	\$ 1,096,688
	1% Decrease in Discount Rate (4.6%)	Discount Rate (5.6%)	1% Increase in Discount Rate (6.6%)
City's proprionate share of the Police and Fire Fund net pension liability	\$ 2,059,561	\$ 1,093,596	\$ 296,139

H. Pension Plan Fiduciary Net Position

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

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association

A. Plan Description

The City of Big Lake Firefighter's Relief Association is the administrator of a single employer defined benefit pension plan established to provide benefits for members of the City of Big Lake Fire Department per *Minnesota State Statutes*. Responsibility for the Relief Association is equally split with the Big Lake Township. Due to this split, half of the Relief's pension plan information is shown here.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Big Lake Firefighter's Association, 160 Lake Street North, Big Lake, MN 55309 or by calling 320-263-2107.

**City of Big Lake
Notes to Financial Statements**

NOTE 10 –PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)

B. Benefits Provided

Volunteer firefighters of the City are members of the City of Big Lake Fire Fighter's Relief Association. Full retirement benefits are payable to members who have reached age 50 and have completed 20 years of service for lump sum service pension. Partial benefits are payable to members who have reached 50 and have completed 5 years of service. Disability benefits and widow and children's survivor benefits are also payable to members or their beneficiaries based upon requirements set forth in the bylaws. These benefit provisions and all other requirements are consistent with enabling state statutes.

C. Employees Covered by Benefit Terms

At December 31, 2016, the following employees were covered by the benefit terms:

Inactive members entitled to but not yet receiving benefits	11
Active members	37
Total	48

D. Contributions

Minnesota Statutes Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aids are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers: therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure as on behalf payment of \$95,867 made by the State of Minnesota for the Relief Association.

E. Net Pension Liability

The City's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**City of Big Lake
Notes to Financial Statements**

NOTE 10 –PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)

E. Net Pension Liability (Continued)

Actuarial assumptions.

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Built in to other rate assumptions
Salary increase	2.50 %, average, including inflation
Investment rate of return	4.75 %, net of pensions plan investment expense: including inflation

The value of death benefits is similar to the value of the retirement pension. Because of low retirement ages, the plan assumes no pre-retirement mortality. Post-retirement mortality does not apply as the benefit structure and form of payment do not reflect lifetime benefits.

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date are summarized in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	16.0 %	2.25 %
Fixed Income	51.0	3.60
Equities	31.0	7.50
Other	<u>2.0</u>	6.00
Total	<u><u>100 %</u></u>	

Discount rate

The discount rate used to measure the total pension liability was 4.75%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

**City of Big Lake
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)

F. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2016	\$ 659,566	\$ 712,984	\$ (53,418)
Changes for the year			
Service cost	24,878	-	24,878
Interest	38,793	-	38,793
Assumption changes	13,980	-	13,980
Changes in benefit terms	-	-	-
Municipal contributions	-	4,000	(4,000)
State contributions	-	49,173	(49,173)
Projected investment return	-	41,911	(41,911)
Gain or loss	(23,285)	5,298	(28,583)
Benefit payments, including refunds of employee contributions	(19,553)	(19,553)	-
Administrative expense	-	(1,800)	1,800
Other charges	-	-	-
Net charges	34,813	79,029	(44,216)
Balances at December 31, 2016	\$ 694,379	\$ 792,013	\$ (97,634)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 4.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.75%) or 1-percentage-point higher (5.75%) than the current rate:

	1% Decrease (3.75%)	Current Discount Rate (4.75%)	1% Increase (5.75%)
Relief's net pension liability	\$ (83,110)	\$ (97,634)	\$ (111,614)

**City of Big Lake
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)

F. Changes in the Net Pension Liability (Continued)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued relief association financial report.

G. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the City recognized pension expense of (\$16,269). At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 12,233	\$ -
Net difference between projected and actual earnings on pension plan investments	-	4,524
Contributions paid to Volunteer Firefighter's Relief Association subsequent to the measurement date	99,630	-
Total	\$ 111,863	\$ 4,524

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 5,145
2019	5,145
2020	3,405
2021	(5,986)
Total	\$ 7,709

H. Payable to the Pension Plan

At December 31, 2017, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2017.

**City of Big Lake
Notes to Financial Statements**

NOTE 11 – COMMITMENTS

	<u>Project Authorization</u>	<u>Expended Through 12/13/2017</u>	<u>Remaining Commitment</u>
CR5 trail and road improvement	\$ 1,301,383	\$ 1,169,509	\$ 131,874
2018 street project	473,270	145,942	327,328

NOTE 12 – TAX INCREMENT FINANCING

The City has entered into three (3) Tax Increment Financing agreements which meet the criteria for disclosure under *Governmental Accounting Standards Board Statement No. 77 Tax Abatement Disclosures*. The City's authority to enter into these agreements comes from *Minnesota Statute 469*. The City entered into these agreements for the purpose of economic development.

Under each agreement, the City and developer agree on an amount of development costs to be reimbursed to the developer by the City through tax revenues from the additional taxable value of the property generated by the development (tax increment). A "pay-as-you-go" note is established for this amount, on which the City makes payments for a fixed period of time with available tax increment revenue after deducting for certain administrative costs.

During the year ended December 31, 2017, the City generated \$142,631 in tax increment revenue and made \$72,143 in payments to developers.

The City has the following TIF Districts:

- TIF District No. 5 was established in 2009 for the purpose of constructing a banking building. Under the agreement, up to \$127,025 of development costs will be reimbursed through tax increment over a 17-year period. During the year ended December 31, 2017, the City generated \$14,138 of tax increment revenue and made payments on the pay-as-you-go note of \$4,427. The note's balance at year end was \$127,025.
- TIF District No. 6 was established in 2014 for the purpose of establishing a new 20-unit rate assisted living and advanced care facility. Under the agreement, up to \$195,000 of development costs will be reimbursed through tax increment over a 9-year period. During the year ended December 31, 2017, the City generated \$29,468 of tax increment revenue and made payments on the pay-as-you-go note of \$26,691. The note's balance at year end was \$101,157.
- TIF District No. 7 was established in 2012 for the purpose of establishing a new 38-unit income based housing apartment. Under the agreement, up to \$490,000 of development costs will be reimbursed through tax increment over a 7-year period. During the year ended December 31, 2017, the City generated \$48,783 of tax increment revenue and made payments on the pay-as-you-go note of \$41,025. The note's balance at year end was \$463,212.

TIF Districts 3 and 4 are not separately disclosed as they have related G.O. bonds.

City of Big Lake
Notes to Financial Statements

NOTE 13 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities. This statement will be effective for the year ending December 31, 2018.

GASB Statement No. 83, Certain Asset Retirement Obligations establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement will be effective for the year ending December 31, 2019.

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending December 31, 2019.

GASB Statement No. 85, Omnibus 2017 addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and post employment benefits. This Statement will be effective for the year ending December 31, 2018.

GASB Statement No. 86, Certain Debt Extinguishment Issues improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. This Statement will be effective for the year ending December 31, 2018.

City of Big Lake
Notes to Financial Statements

NOTE 13 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending December 31, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

City of Big Lake
Schedule of City's Proportionate Share
of Net Pension Liability - General Employees Retirement Fund
Last Ten Years*

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0270%	\$ 1,399,280	\$ -	\$ 1,399,280	\$ 1,562,440	89.56%	78.19%
2016	0.0305%	2,476,449	32,345	2,508,794	1,893,227	130.81%	68.91%
2017	0.0313%	1,998,171	25,092	2,023,263	2,013,733	99.23%	75.90%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Schedule of City's Proportionate Share
of Net Pension Liability - Public Employees Police and Fire Retirement Fund
Last Ten Years*

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0870%	\$ 988,524	\$ 773,321	127.83%	86.61%
2016	0.0880%	3,531,593	848,407	416.26%	63.88%
2017	0.0810%	1,093,596	834,926	130.98%	85.43%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**City of Big Lake
Schedule of City Contributions -
General Employees Retirement Fund
Last Ten Years***

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 123,699	\$ 123,699	\$ -	\$ 1,649,320	7.50%
2016	146,423	146,423	-	1,952,307	7.50%
2017	158,725	158,725	-	2,116,333	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of City Contributions -
Public Employees Police and Fire Retirement Fund
Last Ten Years***

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 133,141	\$ 133,141	\$ -	\$ 821,858	16.20%
2016	131,713	131,713	-	813,043	16.20%
2017	141,471	141,471	-	873,278	16.20%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

City of Big Lake
Schedule of Changes in Net Pension Liability
and Related Ratios - Fire Relief Association

	Relief Association Plan Year		
	2014	2015	2016
Total Pension Liability (TPL)			
Service cost	\$ 21,187	\$ 22,965	\$ 24,878
Interest	33,150	32,111	38,793
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	13,980
Changes of benefit terms	-	61,693	-
Gain or loss	-	-	(23,285)
Benefit payments, including refunds of member contributions	(48,257)	(31,300)	(19,553)
Net change in total pension liability	<u>6,080</u>	<u>85,469</u>	<u>34,813</u>
Beginning of year	<u>568,017</u>	<u>574,097</u>	<u>659,566</u>
End of year	<u>\$ 574,097</u>	<u>\$ 659,566</u>	<u>\$ 694,379</u>
Plan Fiduciary Net Position (FNP)			
Contributions - employer	\$ 49,448	\$ 51,715	\$ 53,173
Contributions - employee	-	-	-
Net investment income	30,001	(8,196)	47,209
Benefit payments, including refunds of member contributions	(48,256)	(31,300)	(19,553)
Administrative expense	(1,764)	(2,022)	(1,800)
Other	-	-	-
Net change in plan fiduciary net position	<u>29,429</u>	<u>10,197</u>	<u>79,029</u>
Beginning of year	<u>673,358</u>	<u>702,787</u>	<u>712,984</u>
End of year	<u>\$ 702,787</u>	<u>\$ 712,984</u>	<u>\$ 792,013</u>
Net Pension Liability (NPL)	<u>\$ (128,690)</u>	<u>\$ (53,418)</u>	<u>\$ (97,634)</u>
Plan fiduciary net position as a percentage of the total pension liability	122.42%	108.10%	114.06%
Covered employee payroll	N/A	N/A	N/A
Net pension liability as a percentage of covered payroll	N/A	N/A	N/A

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section require a ten-year presentation, but does not require retroactive reporting. Information prior to 2014 is not available. Additional years will be reported as they become available.

City of Big Lake
Schedule of City Contributions
and Non-Employer Contributing
Entities - Fire Relief Association

	City's Fiscal Year Ending December 31,			
	2014	2015	2016	2017
Employer				
Statutorily determined contribution (SDC)	\$ -	\$ -	\$ -	\$ -
Contribution in relation to the SDC	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>
Contribution deficiency (excess)	<u>\$ (4,000)</u>	<u>\$ (4,000)</u>	<u>\$ (4,000)</u>	<u>\$ (4,000)</u>
Non-employer				
2% aid	\$ 90,896	\$ 95,430	\$ 95,867	\$ 95,630
Covered payroll	N/A	N/A	N/A	N/A
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A

The City implemented the provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section require a ten-year presentation, but does not require retroactive reporting. Additional years will be reported as they become available.

City of Big Lake
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

POLICE AND FIRE FUND

2017 Changes

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.

City of Big Lake
Notes to Required Supplementary Information

POLICE AND FIRE FUND (CONTINUED)

2017 Changes (Continued)

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be 3 years younger) and female members (husbands assumed to be 4 years older) to the assumption that males are 2 years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.5% thereafter.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- The post-retirement benefit increase to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.5%, to a fixed rate of 2.5%.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2037 and 2.5% per year thereafter.

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SUPPLEMENTARY INFORMATION

**City of Big Lake
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2017**

	Special Revenue			
	Economic Development Authority (275)	Narcotic Forfeiture (276)	DWI Forfeiture (277)	Traffic Safety Program (278)
Assets				
Cash and investments	\$ 72,364	\$ 2,918	\$ 5,175	\$ 855
Cash with fiscal agent	-	-	-	-
Taxes receivable - delinquent	1,356	-	-	-
Accounts receivable	5,992	-	-	-
Due from other governments	1,263	-	-	-
Notes receivable	1,000	-	-	-
Special assessment receivable				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Land held for resale	102,100	-	-	-
Prepaid expenses	275	-	-	-
	<u>\$ 184,350</u>	<u>\$ 2,918</u>	<u>\$ 5,175</u>	<u>\$ 855</u>
Liabilities				
Accounts payable	\$ 1,352	\$ -	\$ -	\$ -
Escrow payable	-	-	-	-
Contracts payable	-	-	-	-
Due to other governments	-	-	-	-
Advances from other funds	130,884	-	-	-
Unearned revenue	500	-	-	-
Total liabilities	<u>132,736</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue - notes receivables	1,000	-	-	-
Unavailable revenue - property taxes	1,356	-	-	-
Unavailable revenue - special assessments	-	-	-	-
Total deferred inflows of resources	<u>2,356</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	102,375	-	-	-
Restricted	-	2,918	5,175	855
Assigned	-	-	-	-
Unassigned	(53,117)	-	-	-
Total fund balances	<u>49,258</u>	<u>2,918</u>	<u>5,175</u>	<u>855</u>
	<u>\$ 184,350</u>	<u>\$ 2,918</u>	<u>\$ 5,175</u>	<u>\$ 855</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 184,350</u>	<u>\$ 2,918</u>	<u>\$ 5,175</u>	<u>\$ 855</u>

Special Revenue		Debt Service			
Farmers Market (280)	Veterans Memorial Fund (281)	G.O. Taxable Refunding 2016A (223)	G.O. CIP Bond 2016B (224)	G.O. Improvement Refunding 2016C (226)	G.O. Tax Increment Bonds of 2004C (250)
\$ 10,029	\$ -	\$ 265,431	\$ 9,448	\$ 781	\$ 349
-	-	654,228	-	1,861,845	-
-	-	6,453	1,512	-	530
-	-	-	-	-	-
-	-	7,242	1,517	-	1,002
-	-	445,000	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
132	-	-	-	-	-
<u>\$ 10,161</u>	<u>\$ -</u>	<u>\$ 1,378,354</u>	<u>\$ 12,477</u>	<u>\$ 1,862,626</u>	<u>\$ 1,881</u>
\$ 87	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	19,099	344,852	-	-	5,200
-	-	-	-	-	-
<u>87</u>	<u>19,099</u>	<u>344,852</u>	<u>-</u>	<u>-</u>	<u>5,200</u>
-	-	445,000	-	-	-
-	-	6,453	1,512	-	530
-	-	-	-	-	-
-	-	<u>451,453</u>	<u>1,512</u>	<u>-</u>	<u>530</u>
132	-	-	-	-	-
9,942	-	582,049	10,965	1,862,626	-
-	-	-	-	-	-
-	(19,099)	-	-	-	(3,849)
<u>10,074</u>	<u>(19,099)</u>	<u>582,049</u>	<u>10,965</u>	<u>1,862,626</u>	<u>(3,849)</u>
<u>\$ 10,161</u>	<u>\$ -</u>	<u>\$ 1,378,354</u>	<u>\$ 12,477</u>	<u>\$ 1,862,626</u>	<u>\$ 1,881</u>

**City of Big Lake
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2017**

	Debt Service			
	G.O. Refunding Bond 2015A (222)	G.O. Capital Improvement Plan Bonds, Series 2009A (209)	G.O. State Aid Loan (211)	G.O. Improvement Bond 2010A (212)
Assets				
Cash and investments	\$ 333,303	\$ 1,010	\$ 14,753	\$ 185,783
Cash with fiscal agent	-	-	-	-
Taxes receivable - delinquent	21,164	3,372	-	11,293
Accounts receivable	-	-	-	-
Due from other governments	6,793	110	-	7,926
Notes receivable	-	-	-	-
Special assessment receivable				
Delinquent	100,286	-	-	797
Deferred	776,941	-	-	105,404
Land held for resale	-	-	-	-
Prepaid expenses	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,238,487</u>	<u>\$ 4,492</u>	<u>\$ 14,753</u>	<u>\$ 311,203</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Escrow payable	-	-	-	-
Contracts payable	-	-	-	-
Due to other governments	-	-	-	-
Advances from other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Deferred Inflows of Resources				
Unavailable revenue - notes receivables	-	-	-	-
Unavailable revenue - property taxes	21,164	3,372	-	11,293
Unavailable revenue - special assessments	877,227	-	-	106,201
Total deferred inflows of resources	<u>898,391</u>	<u>3,372</u>	<u> </u>	<u>117,494</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	340,096	1,120	14,753	193,709
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	<u>340,096</u>	<u>1,120</u>	<u>14,753</u>	<u>193,709</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,238,487</u>	<u>\$ 4,492</u>	<u>\$ 14,753</u>	<u>\$ 311,203</u>

Debt Service				Capital Projects	
G.O. Refunding Bonds of 2014A (221)	G.O. Refunding Bond of 2011A (214)	G.O. Improvement Refunding Bond of 2011B (216)	GO Refunding Bonds 2012A (217)	Neighborhood Stabilization Program (116)	Park Development (120)
\$ 34,503	\$ 645,012	\$ 360,690	\$ 298,808	\$ -	\$ 137,095
-	-	-	-	-	-
604	8,613	15,957	2,180	-	-
-	-	-	-	888	-
630	4,351	10,585	460	-	-
-	-	-	100,000	-	-
-	6,597	5,144	-	-	-
-	56,122	275,088	128,478	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 35,737</u>	<u>\$ 720,695</u>	<u>\$ 667,464</u>	<u>\$ 529,926</u>	<u>\$ 888</u>	<u>\$ 137,095</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	888	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	888	-
-	-	-	100,000	-	-
604	8,613	15,957	2,180	-	-
-	62,719	280,232	128,478	-	-
<u>604</u>	<u>71,332</u>	<u>296,189</u>	<u>230,658</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
35,133	649,363	371,275	299,268	-	137,095
-	-	-	-	-	-
-	-	-	-	-	-
<u>35,133</u>	<u>649,363</u>	<u>371,275</u>	<u>299,268</u>	<u>-</u>	<u>137,095</u>
<u>\$ 35,737</u>	<u>\$ 720,695</u>	<u>\$ 667,464</u>	<u>\$ 529,926</u>	<u>\$ 888</u>	<u>\$ 137,095</u>

**City of Big Lake
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2017**

	Capital Projects			
	Industrial Park Expansion Land Purchase (141)	Local Development (150)	Lake Street Redevelopment TIF 1-3 (165)	Commercial Redevelopment TIF 1-4 (170)
Assets				
Cash and investments	\$ -	\$ 462,873	\$ 6,935	\$ 2,750
Cash with fiscal agent	-	-	-	-
Taxes receivable - delinquent	-	-	-	-
Accounts receivable	-	-	-	-
Due from other governments	2,112	-	949	-
Notes receivable	-	-	-	-
Special assessment receivable				
Delinquent	-	-	-	-
Deferred	-	1,885	-	-
Land held for resale	682,000	-	-	95,160
Prepaid expenses	-	-	-	-
	-	-	-	-
Total assets	\$ 684,112	\$ 464,758	\$ 7,884	\$ 97,910
Liabilities				
Accounts payable	\$ -	\$ 45	\$ -	\$ -
Escrow payable	-	321,926	-	-
Contracts payable	-	15,800	-	-
Due to other governments	132,769	-	-	-
Advances from other funds	580,453	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	713,222	337,771	-	-
Deferred Inflows of Resources				
Unavailable revenue - notes receivables	-	-	-	-
Unavailable revenue - property taxes	-	-	-	-
Unavailable revenue - special assessments	-	1,885	-	-
Total deferred inflows of resources	-	1,885	-	-
Fund Balances				
Nonspendable	682,000	-	-	-
Restricted	-	-	7,884	97,910
Assigned	-	125,102	-	-
Unassigned	(711,110)	-	-	-
Total fund balances	(29,110)	125,102	7,884	97,910
Total liabilities, deferred inflows of resources, and fund balances	\$ 684,112	\$ 464,758	\$ 7,884	\$ 97,910

Capital Projects

Commercial Redevelopment TIF 1-5 (171)	TIF 1-6 Cherrywood (172)	Northern Star TIF1-7 (173)	Equipment and Building Replacements (199)	Total Other Governmental Funds
\$ 7,113	\$ 16,961	\$ 26,150	\$ 769,036	\$ 3,670,125
-	-	-	-	2,516,073
-	-	-	-	73,034
-	-	-	-	6,880
-	-	-	-	44,940
-	-	-	-	546,000
-	-	-	-	112,824
-	-	-	-	1,343,918
-	-	-	-	879,260
-	-	-	-	407
<u>\$ 7,113</u>	<u>\$ 16,961</u>	<u>\$ 26,150</u>	<u>\$ 769,036</u>	<u>\$ 9,193,461</u>
\$ -	\$ -	\$ -	\$ 4,030	5,514
-	-	-	-	321,926
-	-	-	-	15,800
-	-	-	-	133,657
-	-	-	-	1,080,488
-	-	-	-	500
-	-	-	4,030	1,557,885
-	-	-	-	546,000
-	-	-	-	73,034
-	-	-	-	1,456,742
-	-	-	-	2,075,776
-	-	-	-	784,507
7,113	16,961	26,150	-	4,672,360
-	-	-	765,006	890,108
-	-	-	-	(787,175)
<u>7,113</u>	<u>16,961</u>	<u>26,150</u>	<u>765,006</u>	<u>5,559,800</u>
<u>\$ 7,113</u>	<u>\$ 16,961</u>	<u>\$ 26,150</u>	<u>\$ 769,036</u>	<u>\$ 9,193,461</u>

City of Big Lake
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2017

	Special Revenue			
	Economic Development Authority (275)	Narcotic Forfeiture (276)	DWI Forfeiture (277)	Traffic Safety Program (278)
Revenues				
Property taxes	\$ 49,933	\$ -	\$ -	\$ -
Tax increments	-	-	-	-
Special assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	53,073	-	-	-
Fines and forfeitures	-	3,917	6,911	-
Miscellaneous				
Investment and other interest income	1,550	35	31	8
Contributions and donations	-	-	-	-
Other	500	-	-	-
Total revenues	<u>105,056</u>	<u>3,952</u>	<u>6,942</u>	<u>8</u>
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	1,955	3,619	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	12,348	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	5,127	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	-	3,710	2,043	-
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Total expenditures	<u>17,475</u>	<u>5,665</u>	<u>5,662</u>	<u>-</u>
Excess of revenues over (under) expenditures	87,581	(1,713)	1,280	8
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	-	-	-
Insurance recovery proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	87,581	(1,713)	1,280	8
Fund Balances				
Beginning balance	<u>(38,323)</u>	<u>4,631</u>	<u>3,895</u>	<u>847</u>
End of year	<u>\$ 49,258</u>	<u>\$ 2,918</u>	<u>\$ 5,175</u>	<u>\$ 855</u>

Special Revenue		Debt Service			
Farmers Market (280)	Veterans Memorial Fund (281)	G.O. Taxable Refunding 2016A (223)	G.O. CIP Bond 2016B (224)	G.O. Improvement Refunding 2016C (226)	G.O. Tax Increment Bonds of 2004C (250)
\$ -	\$ -	\$ 284,092	\$ 59,645	\$ -	\$ 39,471
-	-	-	-	-	-
-	-	-	-	-	-
1,435	-	-	-	-	-
1,743	-	52,753	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
116	(29)	(7,972)	(247)	11,522	(227)
6,700	19,891	-	-	-	-
-	-	-	-	-	-
<u>9,994</u>	<u>19,862</u>	<u>328,873</u>	<u>59,398</u>	<u>11,522</u>	<u>39,244</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	63,090	-	-	-	-
11,438	-	-	-	-	-
-	-	220,000	45,000	-	15,000
-	-	91,081	12,567	34,870	41,781
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>11,438</u>	<u>63,090</u>	<u>311,081</u>	<u>57,567</u>	<u>34,870</u>	<u>56,781</u>
(1,444)	(43,228)	17,792	1,831	(23,348)	(17,537)
-	-	-	-	-	-
-	-	-	-	-	-
11,000	-	11,514	-	-	32,851
-	-	-	-	-	-
<u>11,000</u>	<u>-</u>	<u>11,514</u>	<u>-</u>	<u>-</u>	<u>32,851</u>
9,556	(43,228)	29,306	1,831	(23,348)	15,314
518	24,129	552,743	9,134	1,885,974	(19,163)
<u>\$ 10,074</u>	<u>\$ (19,099)</u>	<u>\$ 582,049</u>	<u>\$ 10,965</u>	<u>\$ 1,862,626</u>	<u>\$ (3,849)</u>

City of Big Lake
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2017

	Debt Service			
	G.O. Refunding Bond 2015A (222)	G.O. Capital Improvement Plan Bonds, Series 2009A (209)	G.O. State Aid Loan (211)	G.O. Improvement Bond 2010A (212)
Revenues				
Property taxes	\$ 251,501	\$ 1,089	\$ -	\$ 210,449
Tax increments	-	-	-	-
Special assessments	146,128	-	-	102,809
Licenses and permits	-	-	-	-
Intergovernmental	-	-	151,411	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous				
Investment and other interest income	1,065	58	(71)	72
Contributions and donations	-	-	-	-
Other	-	-	-	-
Total revenues	<u>398,694</u>	<u>1,147</u>	<u>151,340</u>	<u>313,330</u>
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	475,000	95,000	122,000	250,000
Interest and other charges	117,276	1,377	30,464	79,773
Capital outlay				
General government	-	-	-	-
Public safety	-	-	-	-
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Total expenditures	<u>592,276</u>	<u>96,377</u>	<u>152,464</u>	<u>329,773</u>
Excess of revenues over (under) expenditures	(193,582)	(95,230)	(1,124)	(16,443)
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	-	-	-
Insurance recovery proceeds	-	-	-	-
Transfers in	113,063	37,175	-	-
Transfers out	-	(21,032)	-	-
Total other financing sources (uses)	<u>113,063</u>	<u>16,143</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(80,519)	(79,087)	(1,124)	(16,443)
Fund Balances				
Beginning balance	<u>420,615</u>	<u>80,207</u>	<u>15,877</u>	<u>210,152</u>
End of year	<u>\$ 340,096</u>	<u>\$ 1,120</u>	<u>\$ 14,753</u>	<u>\$ 193,709</u>

Debt Service				Capital Projects		
G.O. Refunding Bonds of 2014A (221)	G.O. Refunding Bond of 2011A (214)	G.O. Improvement Refunding Bond of 2011B (216)	GO Refunding Bonds 2012A (217)	Neighborhood Stabilization Program (116)	Park Development (120)	
\$ 24,599	\$ 130,447	\$ 334,969	\$ 15,075	\$ -	\$ -	
-	-	-	-	-	-	
-	46,418	105,744	133,203	-	-	
-	-	-	52,524	-	-	
-	-	-	-	-	16,422	
-	-	-	-	-	-	
140	5,161	936	1,973	-	2,112	
-	-	-	-	-	-	
-	-	-	-	6,676	-	
<u>24,739</u>	<u>182,026</u>	<u>441,649</u>	<u>202,775</u>	<u>6,676</u>	<u>18,534</u>	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	6,592	
-	-	-	-	-	-	
27,330	200,000	390,000	190,000	-	-	
5,923	23,165	49,020	11,758	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	112,173	
-	-	-	-	16,632	-	
<u>33,253</u>	<u>223,165</u>	<u>439,020</u>	<u>201,758</u>	<u>16,632</u>	<u>118,765</u>	
(8,514)	(41,139)	2,629	1,017	(9,956)	(100,231)	
-	-	-	-	-	-	
-	-	-	-	-	-	
6,929	14,496	-	-	-	-	
-	-	-	-	-	-	
<u>6,929</u>	<u>14,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
(1,585)	(26,643)	2,629	1,017	(9,956)	(100,231)	
<u>36,718</u>	<u>676,006</u>	<u>368,646</u>	<u>298,251</u>	<u>9,956</u>	<u>237,326</u>	
<u>\$ 35,133</u>	<u>\$ 649,363</u>	<u>\$ 371,275</u>	<u>\$ 299,268</u>	<u>\$ -</u>	<u>\$ 137,095</u>	

City of Big Lake
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2017

	Capital Projects		
	Industrial Park Expansion Land Purchase (141)	Local Development (150)	Lake Street Redevelopment TIF 1-3 (165)
Revenues			
Property taxes	\$ -	\$ -	\$ -
Tax increments	-	-	37,449
Special assessments	-	-	-
Licenses and permits	-	-	-
Intergovernmental	58,317	-	-
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Miscellaneous			
Investment and other interest income	443	4,495	47
Contributions and donations	-	-	-
Other	-	-	-
Total revenues	<u>58,760</u>	<u>4,495</u>	<u>37,496</u>
Expenditures			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	-	-	-
Economic development	623,440	-	-
Debt service			
Principal	-	-	-
Interest and other charges	19,992	-	-
Capital outlay			
General government	-	-	-
Public safety	-	-	-
Streets and highways	-	-	-
Culture and recreation	-	-	-
Economic development	116,634	-	989
Total expenditures	<u>760,066</u>	<u>-</u>	<u>989</u>
Excess of revenues over (under) expenditures	(701,306)	4,495	36,507
Other Financing Sources (Uses)			
Proceeds from sale of capital asset	-	-	-
Insurance recovery proceeds	-	-	-
Transfers in	-	-	-
Transfers out	-	-	(32,851)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(32,851)</u>
Net change in fund balances	(701,306)	4,495	3,656
Fund Balances			
Beginning balance	<u>672,196</u>	<u>120,607</u>	<u>4,228</u>
End of year	<u>\$ (29,110)</u>	<u>\$ 125,102</u>	<u>\$ 7,884</u>

Capital Projects

Commercial Redevelopment TIF 1-4 (170)	Commercial Redevelopment TIF 1-5 (171)	TIF 1-6 Cherrywood (172)	Northern Star TIF1-7 (173)	Equipment and Building Replacements (199)	Total Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,401,270
12,793	14,138	29,468	48,783	-	142,631
-	-	-	-	-	534,302
-	-	-	-	-	1,435
-	-	-	-	543,623	860,371
-	-	-	-	-	69,495
-	-	-	-	-	10,828
22	8	40	43	4,153	25,484
-	-	-	-	-	26,591
-	-	-	-	-	7,176
<u>12,815</u>	<u>14,146</u>	<u>29,508</u>	<u>48,826</u>	<u>547,776</u>	<u>3,079,583</u>
-	-	-	-	122,829	122,829
-	-	-	-	34,311	39,885
-	-	-	-	2,795	2,795
-	-	-	-	6,455	76,137
-	-	-	-	4,719	651,945
-	-	-	-	6,771	2,036,101
-	48	-	-	2,112	526,334
-	-	-	-	3,800	3,800
-	-	-	-	45,296	51,049
-	-	-	-	250,624	250,624
-	-	-	-	6,469	118,642
989	5,416	27,831	42,515	-	211,006
<u>989</u>	<u>5,464</u>	<u>27,831</u>	<u>42,515</u>	<u>486,181</u>	<u>4,091,147</u>
11,826	8,682	1,677	6,311	61,595	(1,011,564)
-	-	-	-	6,925	6,925
-	-	-	-	2,395	2,395
-	-	-	-	285,834	512,862
(11,515)	-	-	-	-	(65,398)
<u>(11,515)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,154</u>	<u>456,784</u>
311	8,682	1,677	6,311	356,749	(554,780)
<u>97,599</u>	<u>(1,569)</u>	<u>15,284</u>	<u>19,839</u>	<u>408,257</u>	<u>6,114,580</u>
<u>\$ 97,910</u>	<u>\$ 7,113</u>	<u>\$ 16,961</u>	<u>\$ 26,150</u>	<u>\$ 765,006</u>	<u>\$ 5,559,800</u>

City of Big Lake
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 2,429,362	\$ 2,429,362	\$ 2,625,717	\$ 196,355
Franchise fees	380,000	380,000	434,945	54,945
Special assessments	1,500	1,500	2,149	649
Licenses and permits	373,925	418,425	619,442	201,017
Intergovernmental revenue				
Market value credit	-	-	134	134
PERA aid	3,106	3,106	3,106	-
Fire aid	91,000	91,000	98,024	7,024
Police aid	123,500	123,500	112,818	(10,682)
Federal grants	17,648	17,648	10,536	(7,112)
Other grants and aids	168,240	168,240	150,810	(17,430)
Total intergovernmental revenue	<u>403,494</u>	<u>403,494</u>	<u>375,428</u>	<u>(28,066)</u>
Charges for services				
General government	57,202	57,202	80,285	23,083
Public safety	46,087	46,087	71,859	25,772
Public works	175,724	175,724	162,532	(13,192)
Culture and recreation	1,475	1,475	1,513	38
Total charges for services	<u>280,488</u>	<u>280,488</u>	<u>316,189</u>	<u>35,701</u>
Fines and forfeitures	37,000	37,000	50,773	13,773
Miscellaneous revenues				
Investment income	25,000	25,000	37,181	12,181
Contributions and donations	7,500	7,500	50,370	42,870
Other	27,000	27,000	38,594	11,594
Total miscellaneous revenues	<u>59,500</u>	<u>59,500</u>	<u>126,145</u>	<u>66,645</u>
Total revenues	<u>3,965,269</u>	<u>4,009,769</u>	<u>4,550,788</u>	<u>541,019</u>
Expenditures				
General government				
Mayor and council	34,949	34,949	33,885	(1,064)
Administrative and finance	521,860	525,860	526,751	891
Other general government	170,399	170,499	136,484	(34,015)
Total general government	<u>727,208</u>	<u>731,308</u>	<u>697,120</u>	<u>(34,188)</u>
Public safety				
Police				
Current	1,612,270	1,612,270	1,565,042	(47,228)
Capital outlay	10,000	10,000	21,099	11,099
Total police	<u>1,622,270</u>	<u>1,622,270</u>	<u>1,586,141</u>	<u>(36,129)</u>

City of Big Lake
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2017

	Budgeted Amounts	Budgeted Amounts		Variance with Final Budget - Over (Under)
	Original	Original and Final	Actual Amounts	
Expenditures (Continued)				
Public safety (continued)				
Fire				
Current	\$ 302,979	\$ 302,979	\$ 303,781	\$ 802
Other:				
Current	211,406	247,106	243,478	(3,628)
Total public safety	<u>2,136,655</u>	<u>2,172,355</u>	<u>2,133,400</u>	<u>(38,955)</u>
Public works				
Streets and highways				
Street maintenance and storm sewers	436,316	436,316	368,945	(67,371)
Street engineering	66,255	66,255	53,009	(13,246)
Street lighting	100,000	100,000	83,879	(16,121)
Street - other capital outlay	4,000	4,000	3,094	(906)
Total streets and highways	<u>606,571</u>	<u>606,571</u>	<u>508,927</u>	<u>(97,644)</u>
Sanitation				
Garbage and other refuse				
Collection and disposal	1,560	1,560	2,049	489
Total public works	<u>608,131</u>	<u>608,131</u>	<u>510,976</u>	<u>(97,155)</u>
Culture and recreation				
Libraries				
Libraries current expenditures	79,386	79,386	61,040	(18,346)
Parks and recreation				
Current expenditures	487,931	487,931	472,845	(15,086)
Total culture and recreation	<u>567,317</u>	<u>567,317</u>	<u>533,885</u>	<u>(33,432)</u>
Economic Development				
Current expenditures	135,123	139,823	139,539	(284)
Debt Service				
Principal	-	-	8,114	8,114
Interest and other charges	2,237	2,237	3,500	1,263
Total debt service	<u>2,237</u>	<u>2,237</u>	<u>11,614</u>	<u>9,377</u>
Total expenditures	<u>4,176,671</u>	<u>4,221,171</u>	<u>4,026,534</u>	<u>(194,637)</u>
Excess of revenues over (under) expenditures	<u>(211,402)</u>	<u>(211,402)</u>	<u>524,254</u>	<u>735,656</u>
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	3,000	3,000	3,188	188
Insurance recoveries	18,000	18,000	25,532	7,532
Transfers in	300,000	300,000	300,000	-
Transfers out	(109,598)	(109,598)	(648,259)	(538,661)
Total other financing sources (uses)	<u>211,402</u>	<u>211,402</u>	<u>(319,539)</u>	<u>(530,941)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>204,715</u>	<u>\$ 204,715</u>
Fund Balances				
Beginning of year			<u>3,024,172</u>	
End of year			<u>\$ 3,228,887</u>	

City of Big Lake
Combining Statement of Changes in Assets and Liabilities -
Agency Funds
Year Ended December 31, 2017

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31</u>
Seed, Sod, and Tree Preservation Escrow (701)				
Assets				
Cash and investments	<u>\$ 135,380</u>	<u>\$ 185,990</u>	<u>\$ 83,700</u>	<u>\$ 237,670</u>
Liabilities				
Accounts payable	<u>\$ 135,380</u>	<u>\$ 185,990</u>	<u>\$ 83,700</u>	<u>\$ 237,670</u>
Temp Sign Permit Escrow (702)				
Assets				
Cash and investments	<u>\$ 4,290</u>	<u>\$ 500</u>	<u>\$ 200</u>	<u>\$ 4,590</u>
Liabilities				
Accounts payable	<u>\$ 4,290</u>	<u>\$ 500</u>	<u>\$ 200</u>	<u>\$ 4,590</u>

**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***

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Big Lake
Big Lake, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Big Lake, Minnesota as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 19, 2018.

Internal Control over Financial Reporting

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

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



Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses on Internal Control that we consider to be significant deficiencies, audit findings 2017-001 and 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses on Internal Control. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads 'BergankDV, Ltd.'.

St. Cloud, Minnesota
April 19, 2018



Report on Legal Compliance

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Big Lake
Big Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Big Lake, Minnesota as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 19, 2018.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Big Lake 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's noncompliance with the above referenced provisions.

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

A handwritten signature in black ink that reads 'BerganKDV, Ltd.' in a cursive, slightly stylized font.

St. Cloud, Minnesota
April 19, 2018

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City of Big Lake
Schedule of Findings and Responses on
Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiencies:

Audit Finding 2017-001 – Preparation of Financial Statements and Related Note Disclosures

As a function of the audit process, auditors are required to gain an understanding of the City's internal control, including the financial reporting process.

The City does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a city of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, on a timely basis. Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

City's Response:

The City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

Audit Finding 2017-002 – Lack of Segregation of Accounting Duties

During the year ended December 31, 2017, the City had a lack of segregation of accounting duties. In order to have appropriate segregation of duties the performance of the following duties would need to be completed by a different employee: initiation and authorization of transactions, recording and processing of transactions, reconciliation and reporting of transactions and financial information, and custody of assets. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

City's Response:

The City will continue to monitor various accounting activities and look for areas where functions can be allocated to different staff to minimize potential control risks.

**City of Big Lake
Sherburne County, Minnesota**

Communications Letter

December 31, 2017



**City of Big Lake
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**Report on Matters Identified as a Result of
the Audit of the Financial Statements**

Honorable Mayor and Members of the
City Council and Management
City of Big Lake
Big Lake, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Big Lake, Minnesota, as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiencies identified are stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated April 19, 2018, on such statements.



This communication is intended solely for the information and use of management, the City Council, others within the City, federal, and state oversight awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

BergankDV, Ltd.

St. Cloud, Minnesota
April 19, 2018

City of Big Lake
Significant Deficiencies

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended December 31, 2017, the City had a lack of segregation of accounting duties. In order to have appropriate segregation of duties the performance of the following duties would need to be completed by a different employee: initiation and authorization of transactions, recording, and processing of transactions, reconciliation and reporting of transactions and financial information, and custody of assets. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

PREPARATION OF FINANCIAL STATEMENTS AND RELATED NOTE DISCLOSURES

As a function of the audit process, auditors are required to gain an understanding of the City's internal control, including the financial reporting process.

The City does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a city of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, on a timely basis. Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**City of Big Lake
Required Communication**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2017. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City.

**City of Big Lake
Required Communication**

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2017. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The City is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method

Land Held for Resale – Land held for resale is recorded using either the lower of historical cost or estimated resale value.

Net Pension Liability, Deferred Outflows of Resources Relating to Pension Activity, and Deferred Inflows of Resources Relating to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole:

- Inventory
- Unearned revenue

**City of Big Lake
Required Communication**

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We requested certain representations from management that are included in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

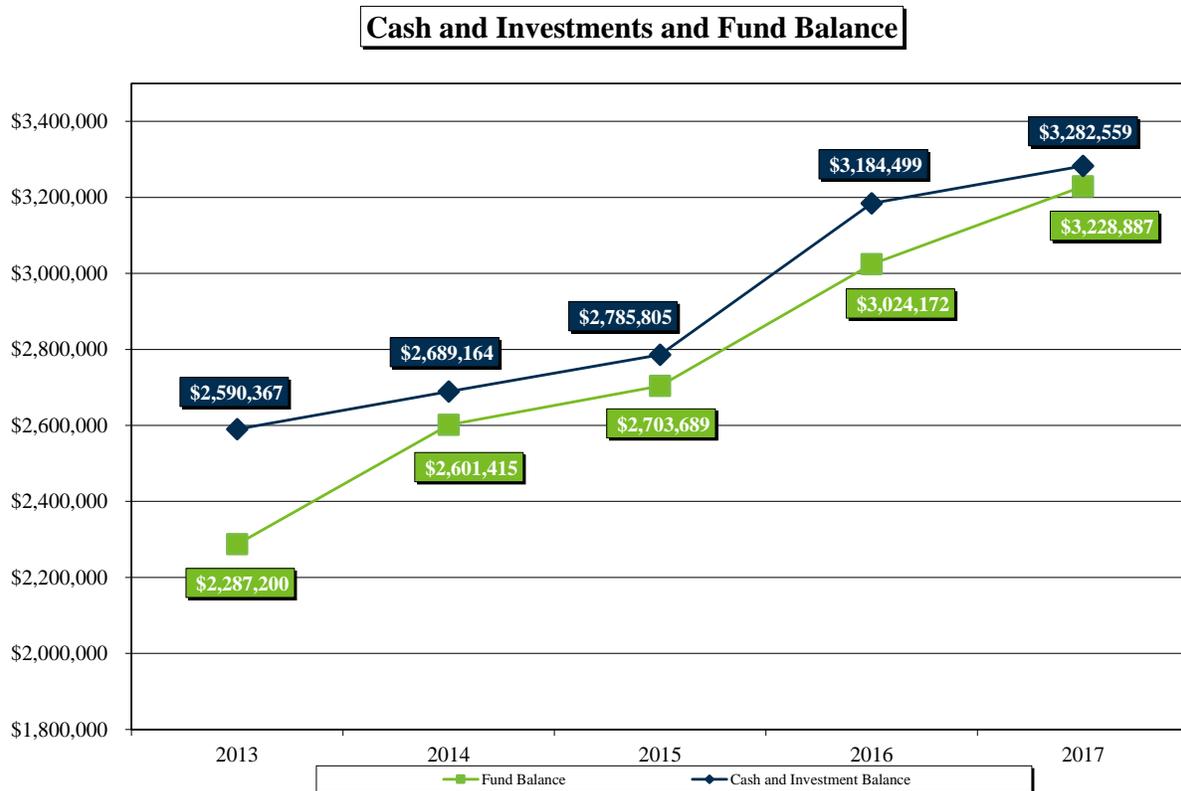
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

City of Big Lake Financial Analysis

The following pages provide graphic representations of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

GENERAL FUND – FUND BALANCE

The following graph illustrates the relationship between cash and investments and fund balance over the past five years. As shown below, the cash balance has increased \$692,192 from 2013 to 2017. The amount of cash at December 31, 2017, represents the highest cash balance shown of the five years presented. The fund balance increased \$941,687 from 2013 to 2017. At December 31, 2017, the General Fund balance consisted of \$88,501 nonspendable, \$150,013 assigned and \$2,990,373 unassigned. The total unassigned fund balance represented more than eight and a half months of expenditures at current levels. The Office of the State Auditor has issued a statement of position recommending cities maintain an unreserved fund balance of approximately 35% to 50% of fund operating revenues, or no less than five months of operating expenditures. The City's Fund Balance Policy states that the City will maintain an unrestricted fund balance amount not less than 50% of the next year's budgeted expenditures in the General Fund. Based on the 2018 budgeted expenditures of \$4,697,392, the City's unrestricted General Fund balance was at 64% at December 31, 2017.



On the following pages, we will discuss the revenues and expenditures of the General Fund and the variations in the fund balance.

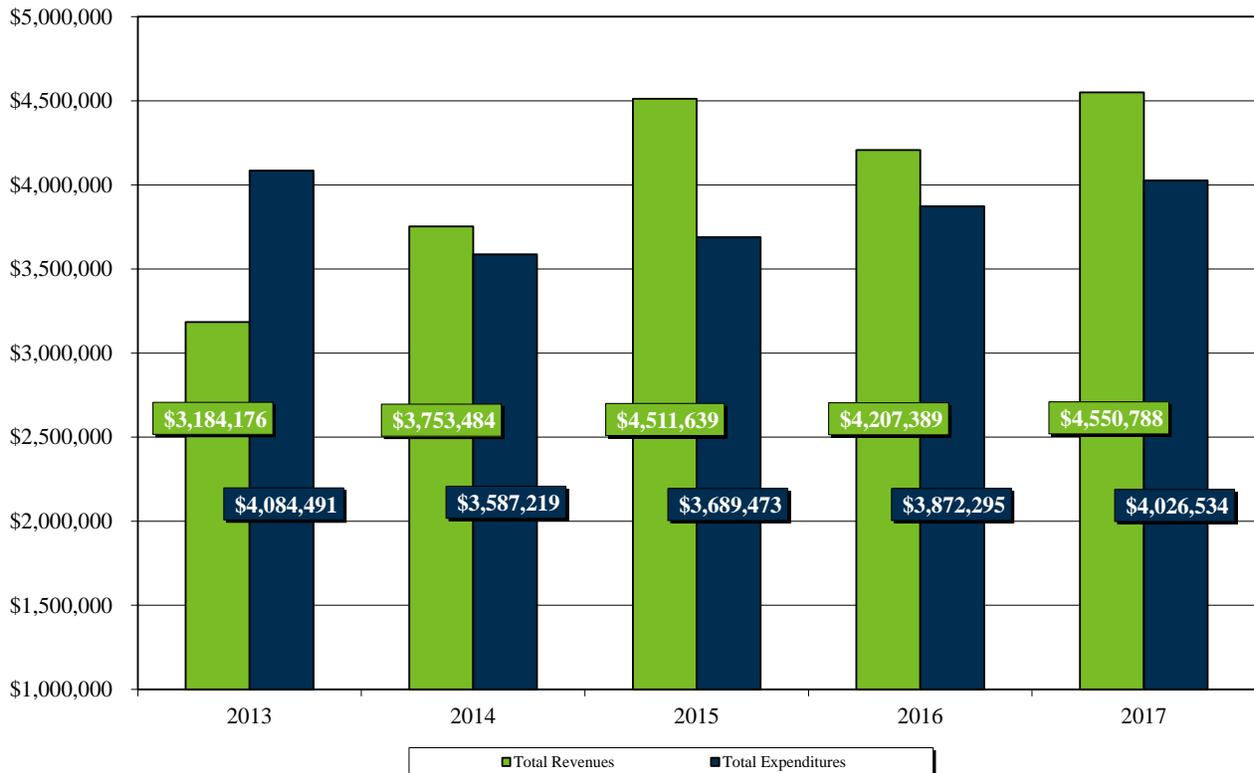
**City of Big Lake
Financial Analysis**

GENERAL FUND – REVENUES AND EXPENDITURES

The following table and graph show the overall operations of the General Fund. Revenues have fluctuated over the five years shown from a high in 2017 of \$4,550,788 to a low of \$3,184,176 in 2013. Overall from 2013 to 2017, revenues have increased \$1,366,612. Similarly, expenditures have fluctuated over the five years presented. In 2017, expenditures were \$4,026,534, an increase from the prior year of \$154,239. Since 2013, expenditures have decreased \$57,957. Transfers in for 2013 and 2014 were made to increase the General Fund balance, softening the excess of expenditures over revenues in 2013. Transfers out for 2015 through 2017 were made for capital related items.

	2013	2014	2015	2016	2017
Revenues	\$ 3,184,176	\$ 3,753,484	\$ 4,511,639	\$ 4,207,389	\$ 4,550,788
Expenditures	4,084,491	3,587,219	3,689,473	3,872,295	4,026,534
Proceeds from the sale of capital assets	13,270	943	1,625	4,947	3,188
Insurance recoveries	8,450	-	-	50,893	25,532
Proceeds from capital lease	-	-	-	26,213	-
Net transfers	932,737	147,007	(721,517)	(96,664)	(348,259)
Net change in fund balance	\$ 54,142	\$ 314,215	\$ 102,274	\$ 320,483	\$ 204,715

Revenues and Expenditures



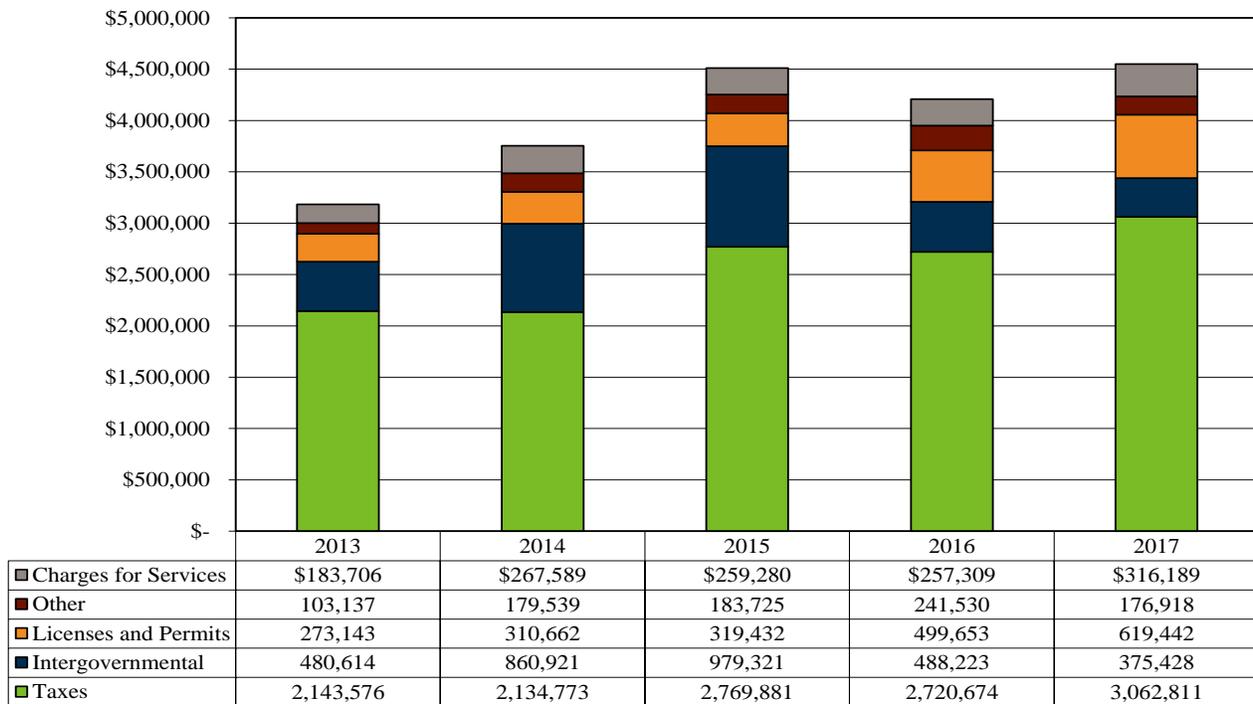
City of Big Lake Financial Analysis

GENERAL FUND – REVENUES

The following graph presents comparisons of revenues by type, illustrating the majority of revenue for the City is from taxes, intergovernmental sources, and licenses and permits. These three sources represent 67.3%, 8.2%, and 13.6% of total General Fund revenues, respectively. Other revenues include items such as fines and forfeitures, investment income and other miscellaneous items.

Revenues of the General Fund increased from 2016 to 2017 by \$343,399. Taxes increased \$342,137 due to an increase in the levy. Intergovernmental revenues decreased \$112,795 due to receiving fewer operating grants than compared to the prior year. Licenses and permits increased \$119,789 due to significant housing development during the year. Changes for services increased \$58,880 due primarily to an increase in lease revenue. Other sources of revenue decreased \$64,612 due to a decrease in township reimbursements for services.

General Fund Revenues

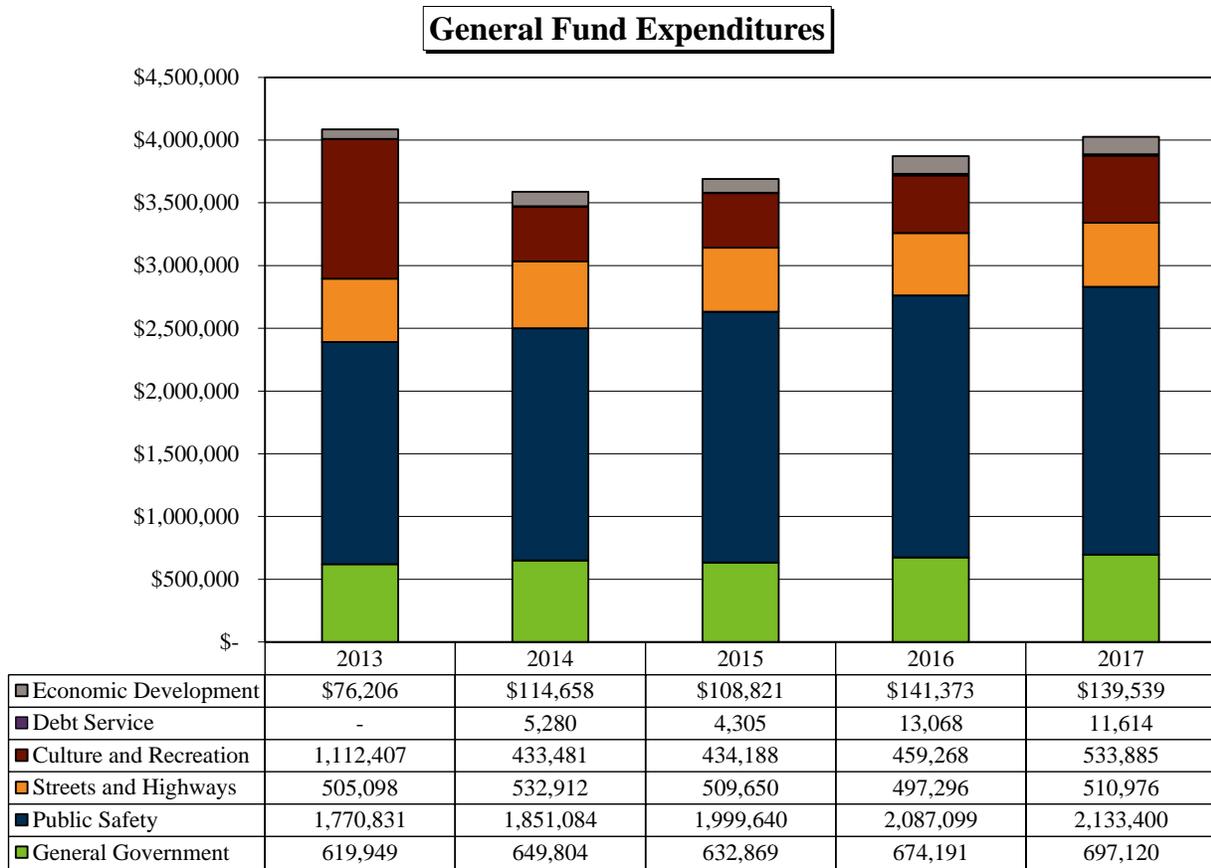


City of Big Lake Financial Analysis

GENERAL FUND – EXPENDITURES

The graph below represents the breakdown of expenditures by department. Public Safety continues to comprise the largest portion of General Fund expenditures, representing 53.0%. Overall, General Fund expenditures increased \$154,239 from 2016.

Culture and recreation increased \$74,617 due to the City billing public buildings for water and sewer services beginning in 2017 along with increases to salaries and benefits and lake maintenance expenditures. Public Safety increased \$46,301 due to salary and benefit increases and increased operating expenditures. All other functions were consistent with the prior year.



**City of Big Lake
Financial Analysis**

GENERAL FUND – BUDGETARY COMPARISON

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget -
Revenues				
Taxes	\$ 2,810,862	\$ 2,810,862	\$ 3,062,811	\$ 251,949
Intergovernmental	403,494	403,494	375,428	(28,066)
Licenses and permits	373,925	418,425	619,442	201,017
Charges for services	280,488	280,488	316,189	35,701
Fines	37,000	37,000	50,773	13,773
Miscellaneous	59,500	59,500	126,145	66,645
Total receipts	<u>3,965,269</u>	<u>4,009,769</u>	<u>4,550,788</u>	<u>541,019</u>
Expenditures				
General government	727,208	731,308	697,120	(34,188)
Public safety	2,136,655	2,172,355	2,133,400	(38,955)
Streets and highways	608,131	608,131	510,976	(97,155)
Culture and recreation	567,317	567,317	533,885	(33,432)
Economic development	135,123	139,823	139,539	(284)
Debt service	2,237	2,237	11,614	9,377
Total disbursements	<u>4,176,671</u>	<u>4,221,171</u>	<u>4,026,534</u>	<u>(194,637)</u>
Excess of receipts over (under) disbursements	(211,402)	(211,402)	524,254	735,656
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	3,000	3,000	3,188	188
Insurance recoveries	18,000	18,000	25,532	7,532
Net transfers	190,402	190,402	(348,259)	(538,661)
Total other financing sources (uses)	<u>211,402</u>	<u>211,402</u>	<u>(319,539)</u>	<u>(530,941)</u>
Net change in cash fund balances	\$ -	\$ -	\$ 204,715	\$ 204,715

Overall, actual revenue was \$541,019, or 13.5%, over budget. Taxes were \$251,949 over budget due to budgeting conservatively for collections and not budgeting for cable franchise fees that were received. Licenses and permits were over budget \$201,017 as a result of the increased permits that were not anticipated. Miscellaneous revenue sources were over budget \$66,645 due to additional contributions and donations received for the K-9 unit that were not included in the budget. All other revenue categories were relatively consistent with the budget.

Overall, actual expenditures were less than budgeted amounts by \$194,637. Streets and highways was under budget \$97,155 due to less contracting expenditures of engineering services with the hiring of a full-time engineer position. There was also less streetlight activity in 2017 than budgeted and fewer weather events needing salt than was anticipated. Public safety was under budget \$38,955 due primarily to conservative budgeting. All other functions only had minor variances from their budgeted amounts.

City of Big Lake Financial Analysis

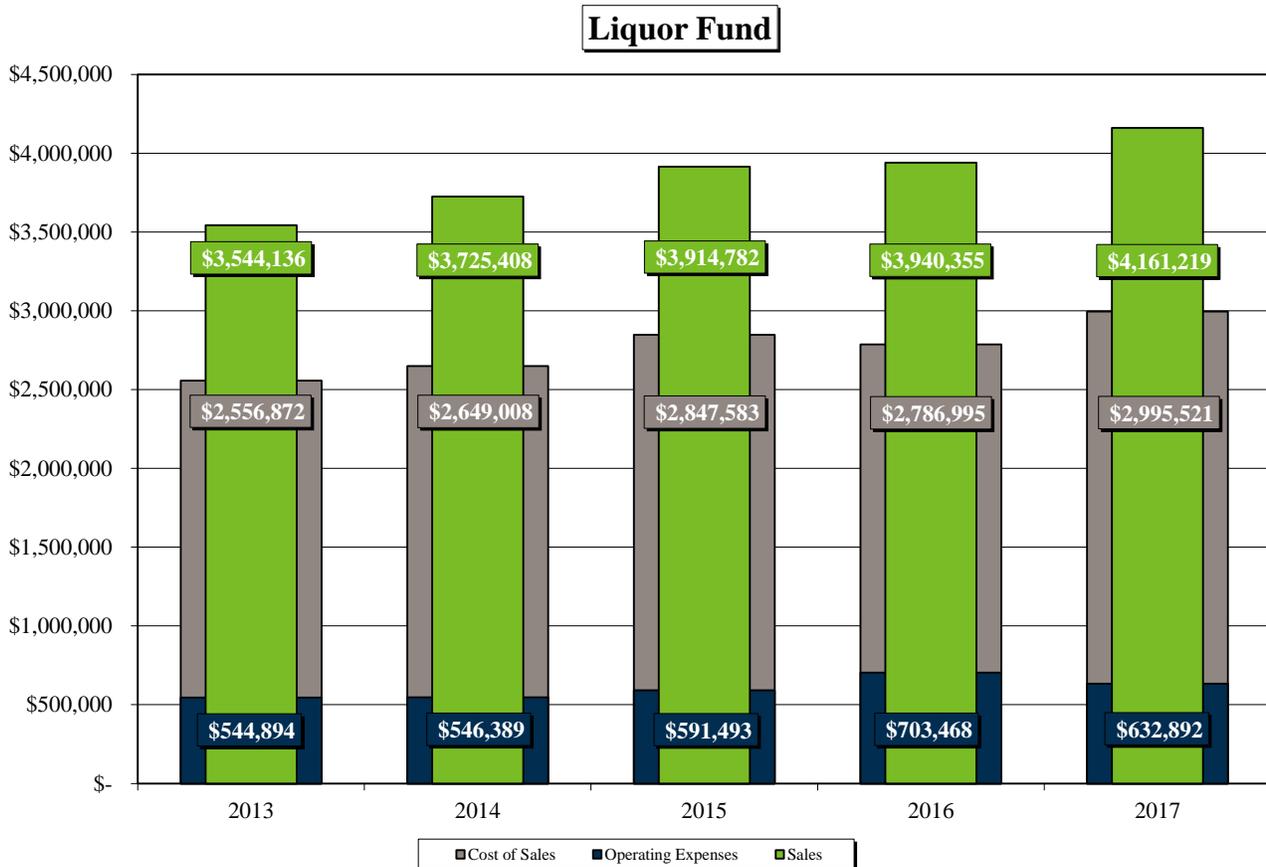
LIQUOR FUND

Since the liquor store is an important contributing factor to the City's budget, we recommend the Liquor Store Manager and City Council closely monitor expenses. In addition, pricing must also be continually reviewed to ensure charges keep pace with increases in costs of sales.

Selected data relating to the City's Liquor Fund operating results for the past five years is displayed in the graphs below and on the following page.

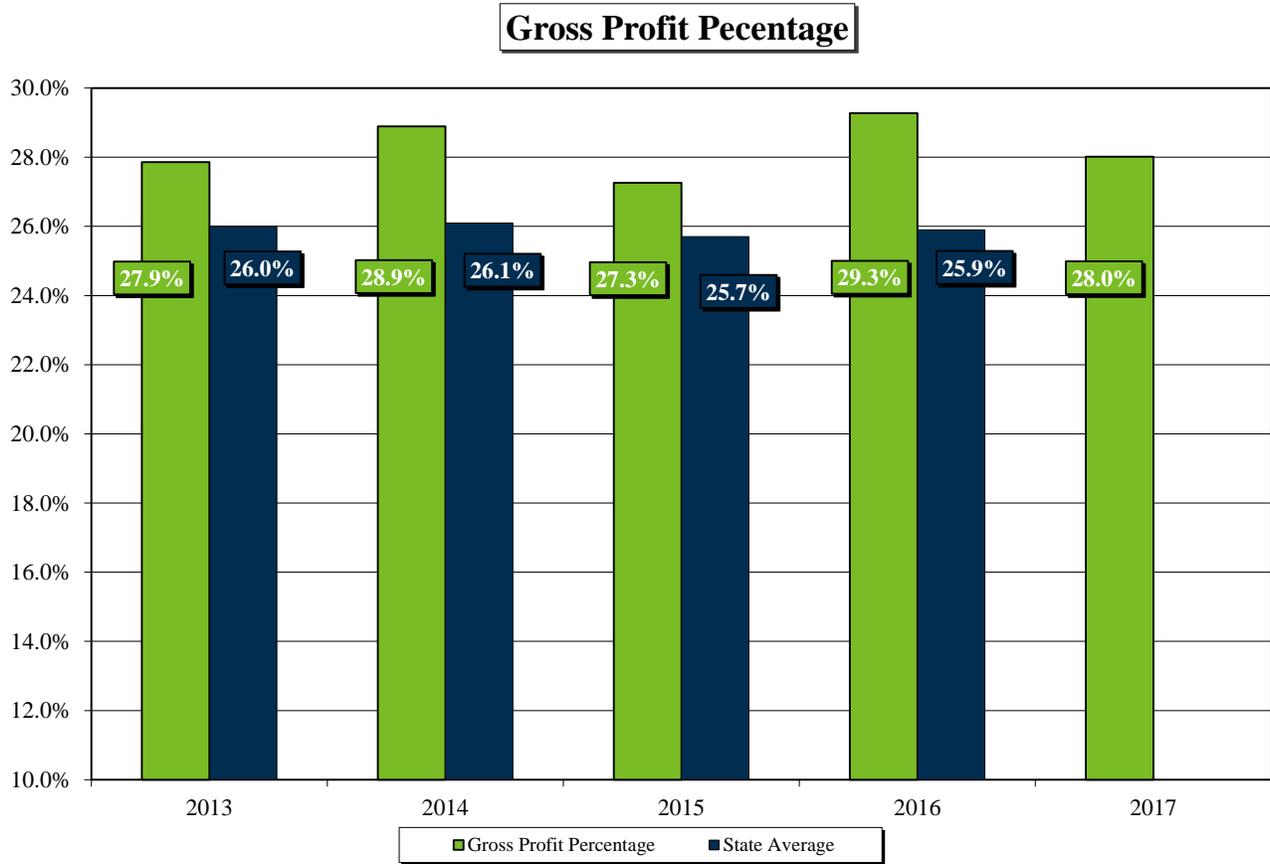
The liquor store sales have increased in each of the last five years. Total sales for 2017 reflected a 5.6% increase from 2016. During this same time period, cost of sales increased 7.5%. The result was a decrease in gross profit of 1.3%, to 28.0% in 2017 from 29.3% in 2016.

As of December 31, 2017, the Liquor Fund had an ending cash and investment balance of \$928,529. Unrestricted net position at year-end was \$1,084,282 compared to \$913,767 in 2016. The total debt outstanding at December 31, 2017, in the Liquor Fund was \$705,181, including interest of \$62,051.



**City of Big Lake
Financial Analysis**

LIQUOR FUND (CONTINUED)



- State averages were taken from the 2013-2016 State of Minnesota "Analysis of Municipal Liquor Store Operations" for off-sale stores. Data for 2017 is not yet available.

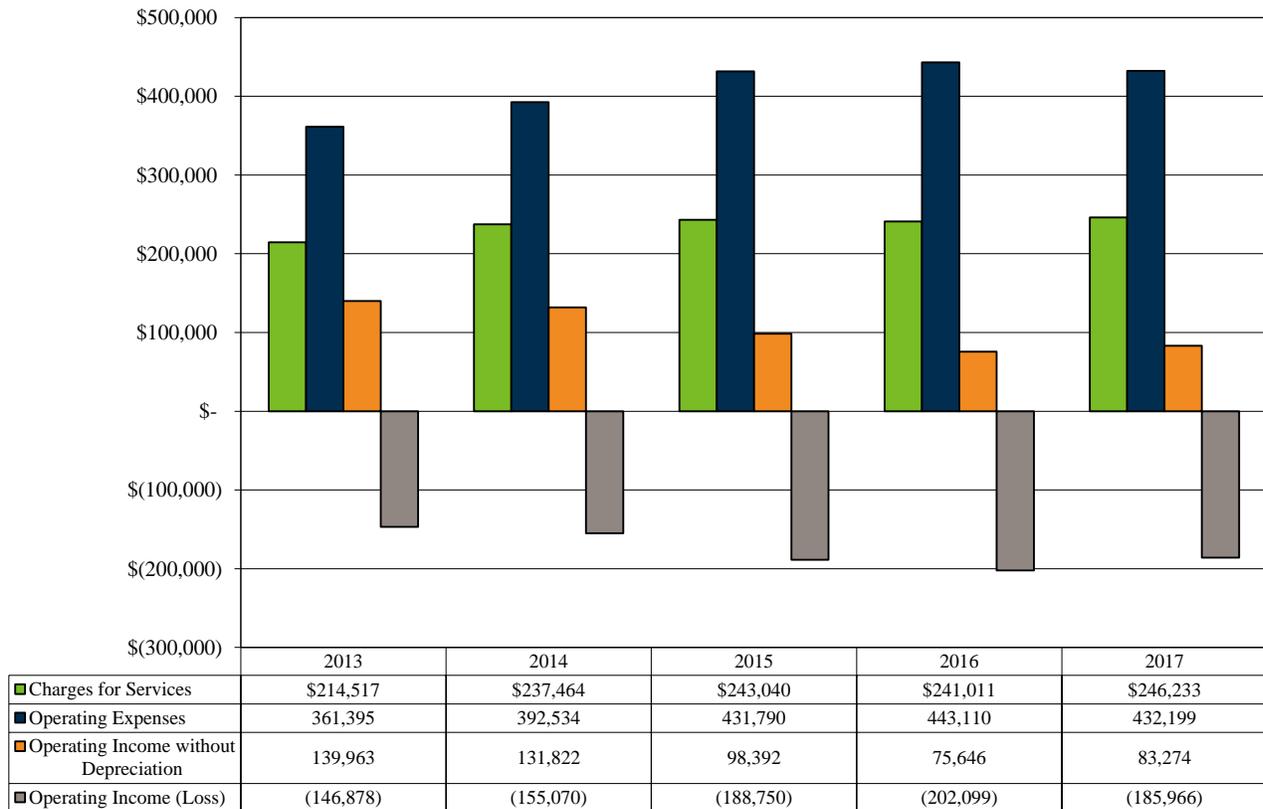
City of Big Lake Financial Analysis

STORM SEWER FUND

The following graph illustrates the current operations of the Storm Sewer Fund for the past five years. For each of the five years shown, the City's Storm Sewer Fund has generated an operating loss. Charges for services increased \$5,222 or 2.2% while operating expenses decreased \$10,911 or 2.5%, compared to 2016. The net effect of the changes in revenues and expenses is a net loss of \$185,966. When depreciation is removed from the operating expenses, the Fund experienced operating income of \$83,274.

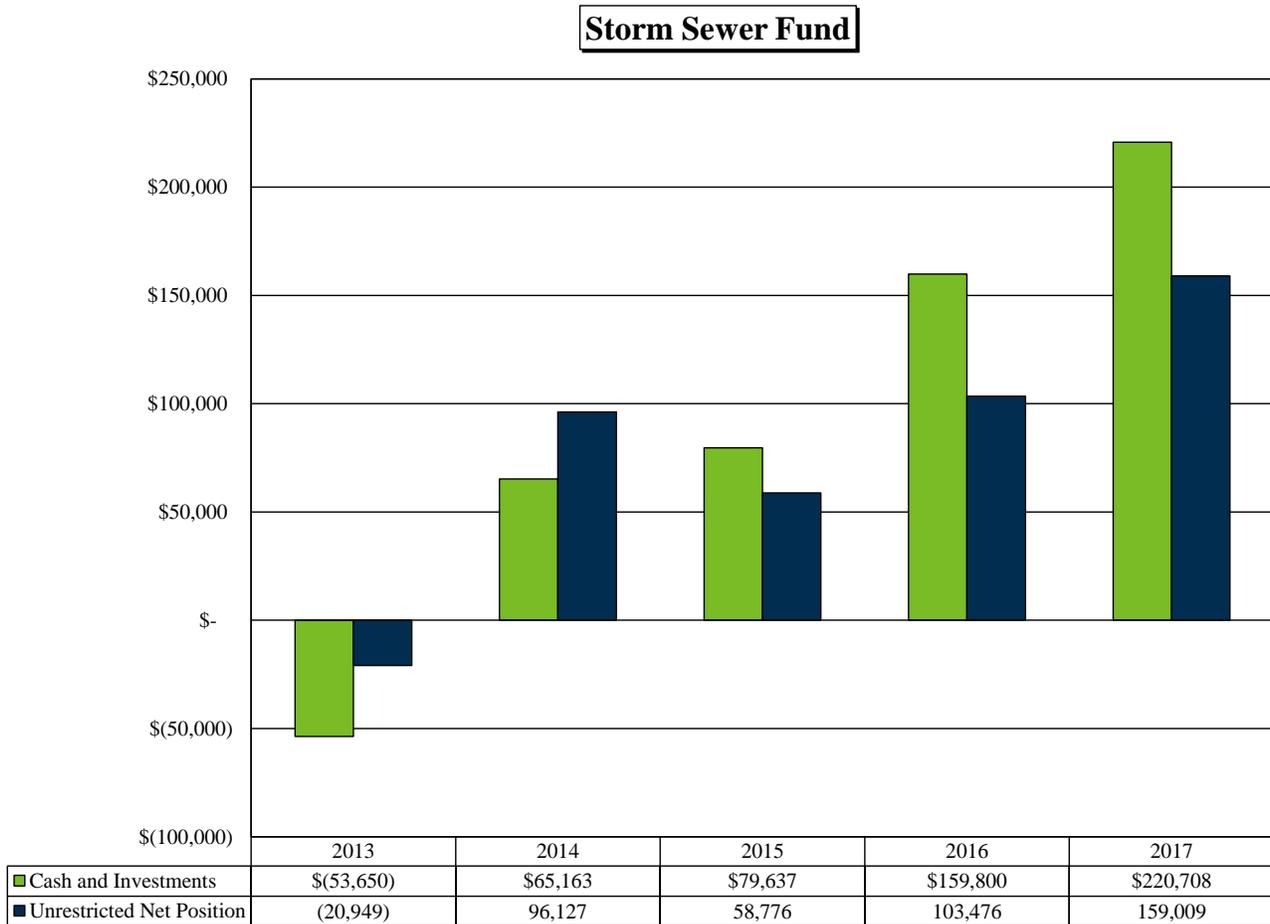
We recommend the City continue to evaluate storm water rates and monitor related expenses to generate sufficient operating income in the future.

Storm Sewer Operations



**City of Big Lake
Financial Analysis**

STORM SEWER FUND (CONTINUED)



As of December 31, 2017, the Storm Water Fund had an ending net cash and investment balance of \$220,708. This is an increase of \$60,908 over 2016 levels. Total net position at year-end was \$3,676,340, while unrestricted net position at year-end was \$159,009. Unrestricted net position has increased \$179,958 since 2013.

City of Big Lake Financial Analysis

WATER AND SEWER FUNDS

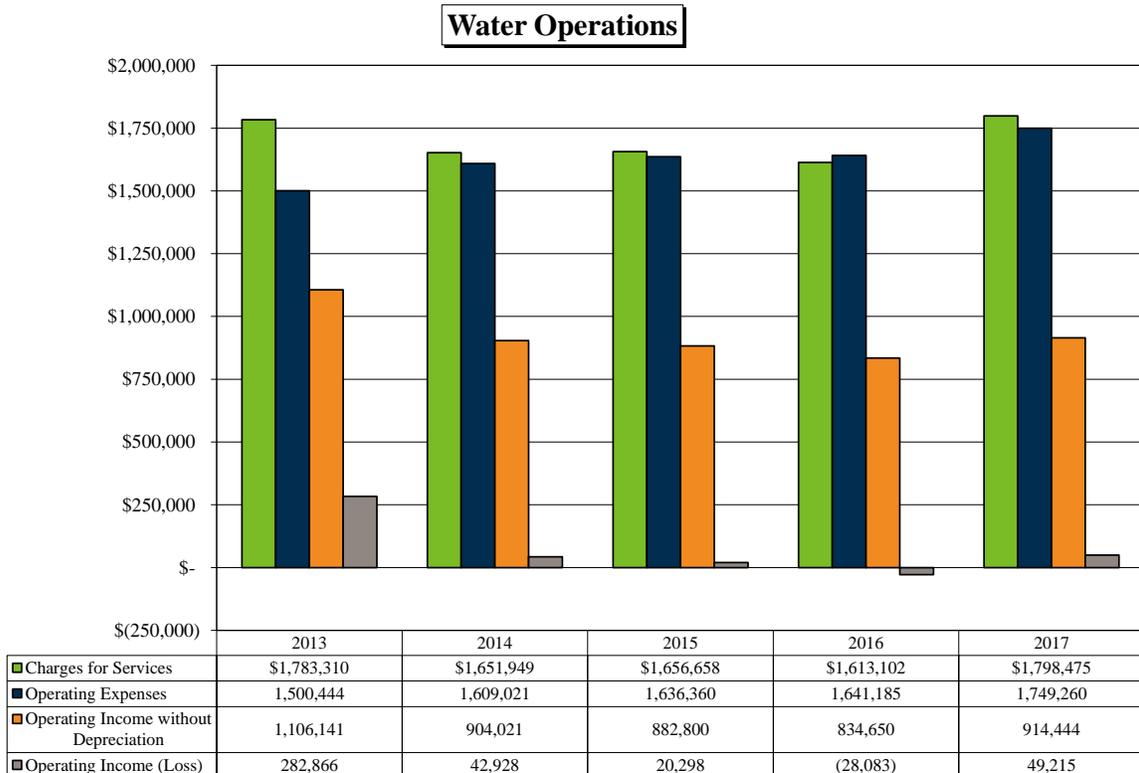
Water Fund

The following graph illustrates the current operations of the Water Fund for the past five years. Charges for services illustrated do not include water connection fees. These fees are not included because the revenue is set aside for future asset replacement costs. Similarly, operating income is shown with and without depreciation as the above connection fees will be covering some of the replacement cost. Therefore, charges for services will not be required to cover all of these costs.

For the five years shown, 2016 is the only year that experienced an operating loss. In 2013 through 2015 and again in 2017, the Fund generated an operating income. Charges for services increased \$185,373 from 2016 as a result of an increase in rates, significant residential development, and the City billing municipal buildings in 2017. Operating expenses increased by \$108,075, or 6.6% due primarily to an increase in salary and benefit expenses. The net effect of the increased revenues and increased expenses is operating income of \$49,215. When depreciation is removed from the operating expenses, the Fund experienced operating income of \$914,444.

Enterprise funds may be used to account for any activity in which a fee is charged. It is not required to have the fee support the entire activity; however, the basic premise in establishing an enterprise fund is that the activity will be operated similar to a business. Therefore, it is expected the enterprise fund would at least be able to meet its obligations currently and into the future.

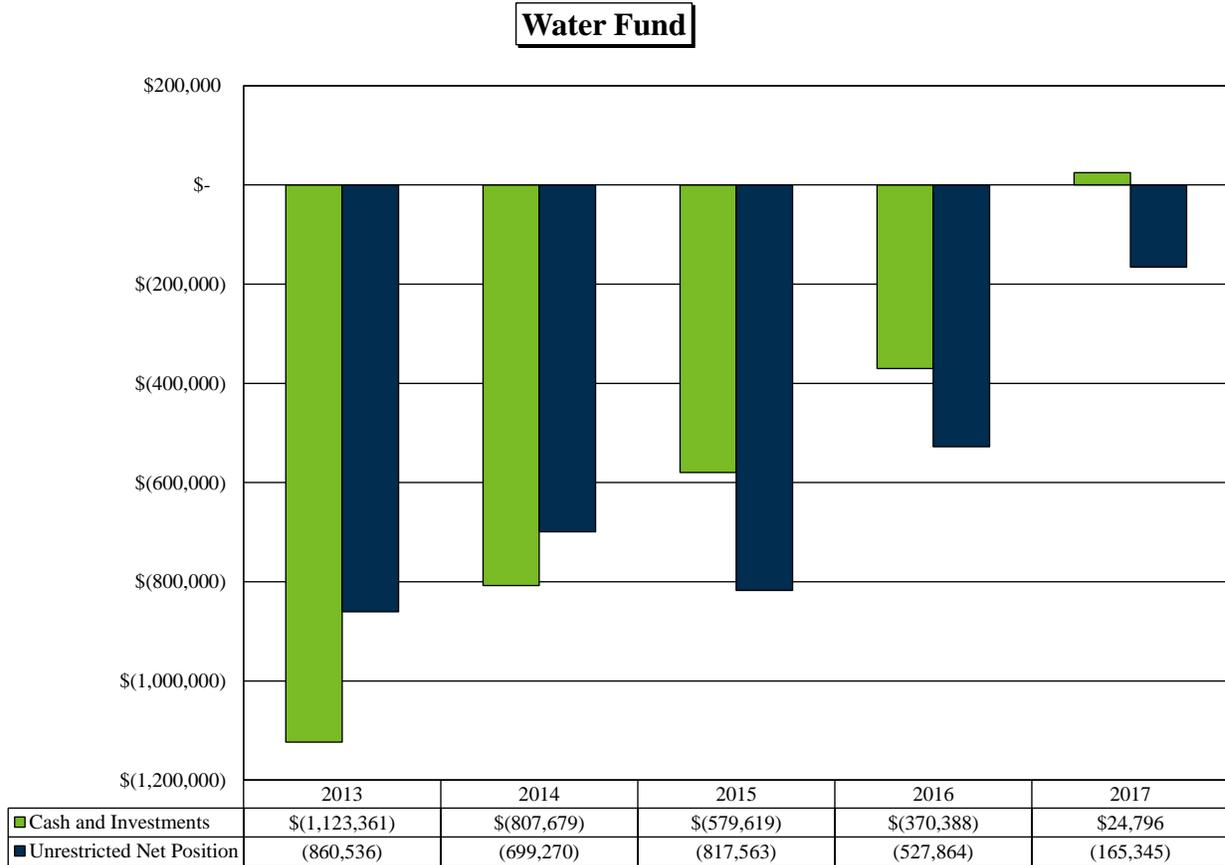
We recommend the City continue to evaluate water rates and monitor related expenditures to generate sufficient operating income in the future.



**City of Big Lake
Financial Analysis**

WATER AND SEWER FUNDS (CONTINUED)

Water Fund (Continued)



The above graph shows the cash and investment (net of advances) and unrestricted net position balances as of December 31 for the last five years. The Water Fund cash and investment balance has increased \$1,148,157 since 2013. A portion of the cash and investments in the Water Fund is currently being advanced from the Sewer Fund. Current year interest and principal payments on the Water Fund debt were \$824,084. The total amount of debt outstanding in the Water Fund at December 31, 2017, was \$5,968,797 including principal and interest. Principal and interest due in 2018 totals \$840,386.

**City of Big Lake
Financial Analysis**

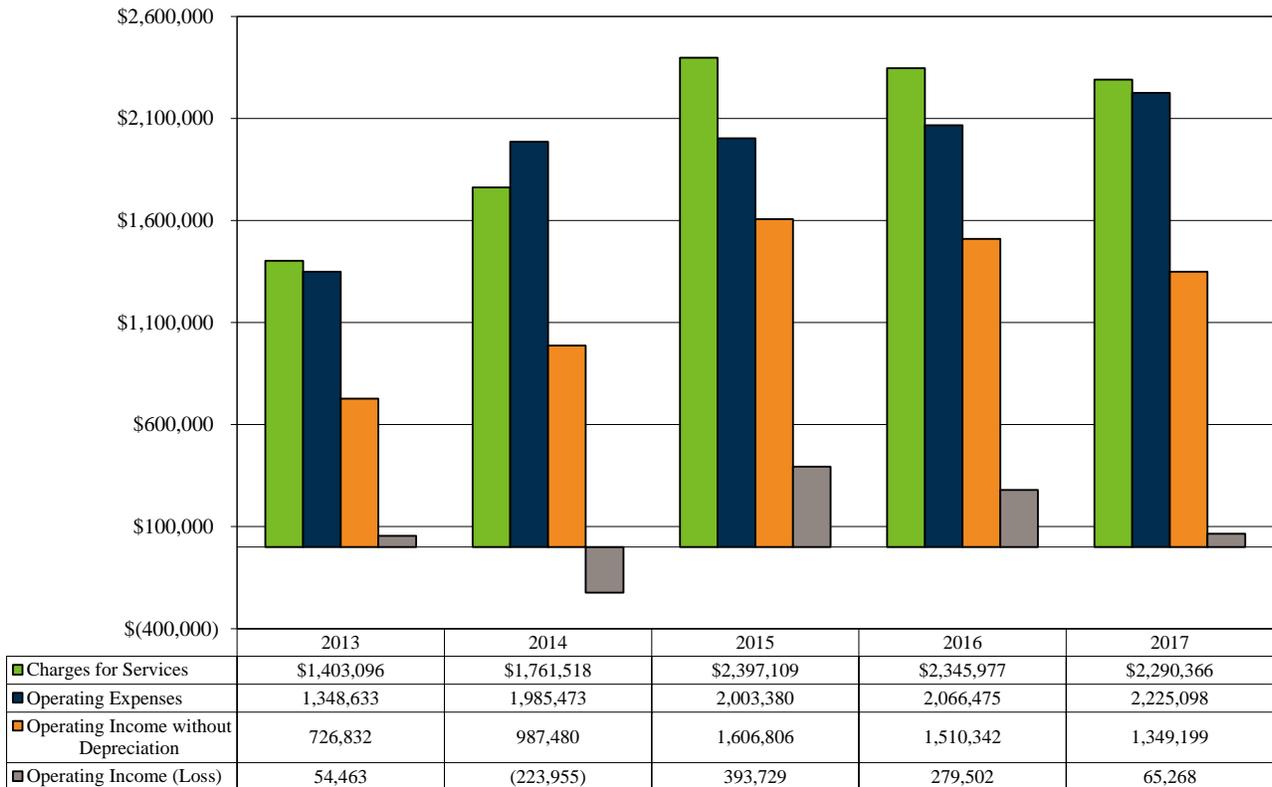
WATER AND SEWER FUNDS (CONTINUED)

Sewer Fund

In four of the past five years, the Sewer Fund has shown an operating income. In 2017, the Fund showed an operating income of \$65,268. This is a decrease in operating income of \$214,234 from 2016. The Fund experienced a decrease in charges for services of \$55,611, due to less sewer septic dumping charges, while expenses increased \$158,623, due to increased salaries and benefits and additional depreciation.

We recommend the City continue to evaluate water and sewer rates to generate sufficient operating income in the future. The significant debt principal and interest obligations of the City are considered non-operating expenses and are not presented with this particular graph. However, the City should consider these obligations when evaluating the sewer rates to ensure the Fund is able to make all future debt payments.

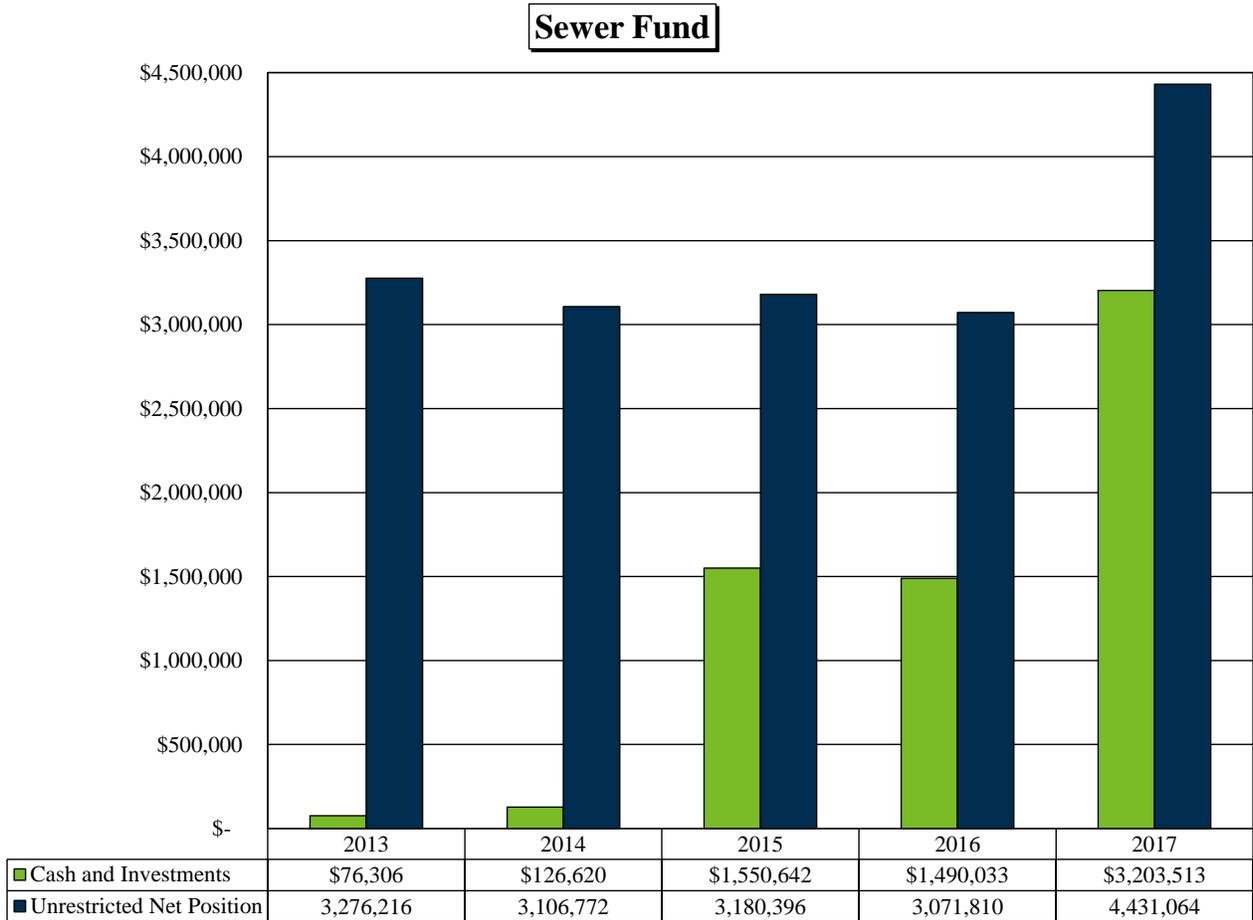
Sewer Operations



**City of Big Lake
Financial Analysis**

WATER AND SEWER FUNDS (CONTINUED)

Sewer Fund (Continued)



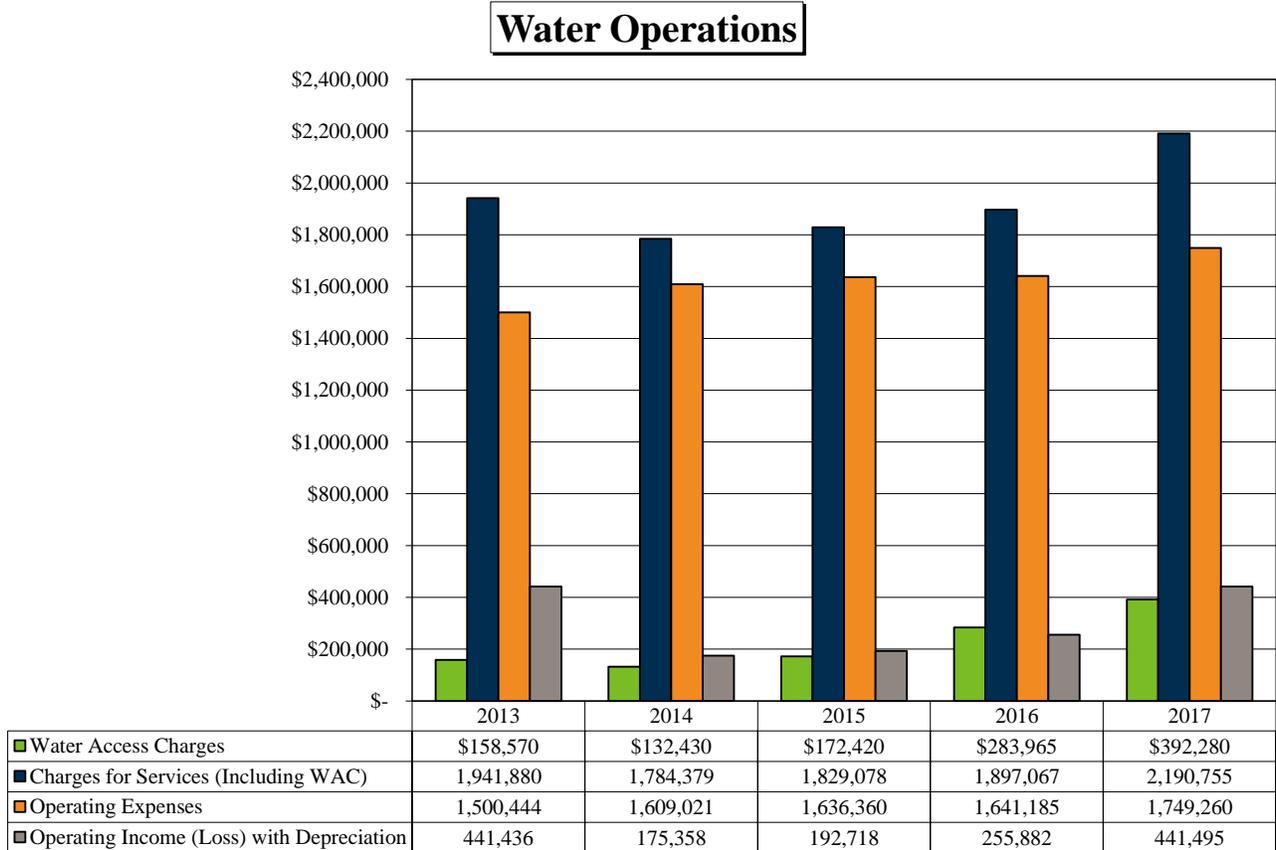
The graph above shows the cash and investment and unrestricted net position balances as of December 31 for the last five years. The Sewer Fund cash and investment balance increased \$1,713,480, in 2017. The increase in cash and investments was primarily due to current year trunk and access charges received. Starting in 2007, the Sewer Fund was used to finance the cash deficits of the other City's funds. In 2007, the amount of cash used to cover the deficits was \$1.3 million. In 2017, the Fund used approximately \$1.5 million to cover cash deficits in other funds. The current year interest and principal payments on the Sewer Fund debt were \$1,753,349. The total amount of debt outstanding at December 31, 2017, was \$17,747,333, including principal and interest. Principal and interest due in 2018 totals \$1,616,772 for the Sewer Fund.

On the following pages, the Water and Sewer Fund operations are shown to include revenue collected for access charges and trunk fees.

**City of Big Lake
Financial Analysis**

WATER AND SEWER FUNDS (CONTINUED)

As presented below, the Water Fund had been collecting access charges and trunk fees, along with charges for services, sufficient to finance the construction of new lines and to cover the costs of the existing lines through depreciation in each year presented.

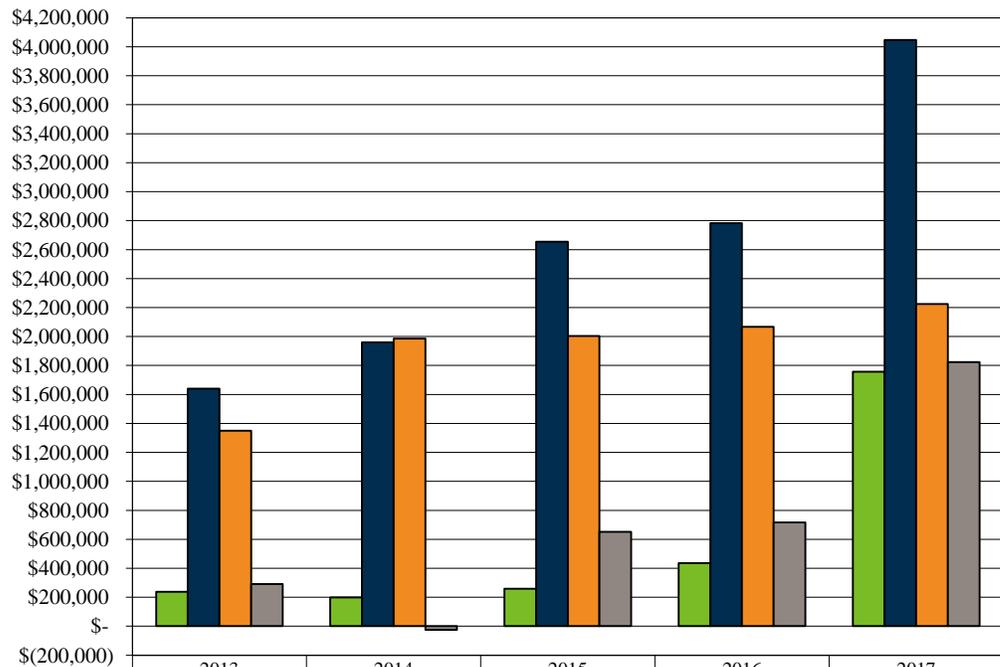


City of Big Lake Financial Analysis

WATER AND SEWER FUNDS (CONTINUED)

In four out of five years shown, the Sewer Fund did collect sufficient access charges and trunk fees, in addition to charges for services, to finance construction and depreciation. In 2014, sufficient revenues were not collected to cover expenses. Sewer access charges increased significantly in 2017 due primarily to a contract agreement with Cargill that brought in around \$1.1 million.

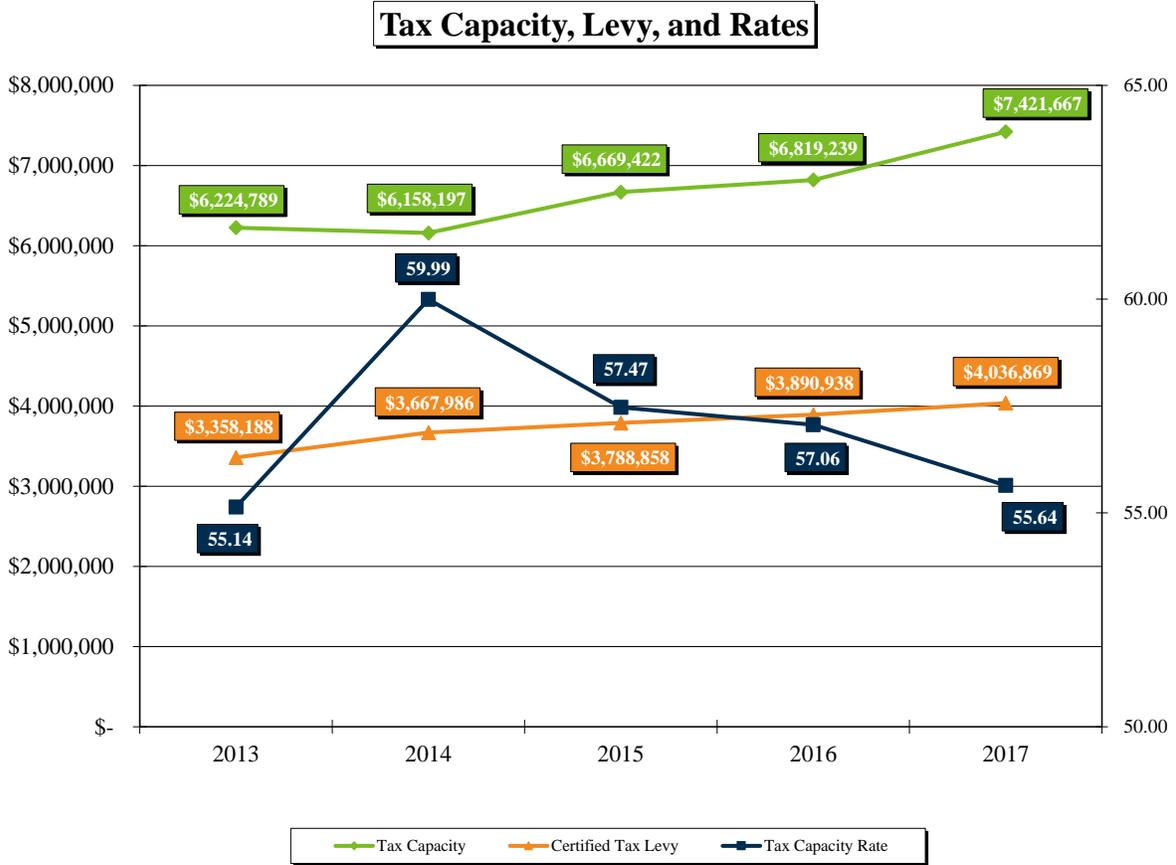
Sewer Operations



	2013	2014	2015	2016	2017
■ Sewer Access and Trunk Charges	\$237,215	\$198,550	\$258,115	\$436,422	\$1,757,326
■ Charges for Services (Including SAC and Trunk)	1,640,311	1,960,068	2,655,224	2,782,399	4,047,692
■ Operating Expenses	1,348,633	1,985,473	2,003,380	2,066,475	2,225,098
■ Operating Income (Loss) with Depreciation	291,678	(25,405)	651,844	715,924	1,822,594

City of Big Lake Financial Analysis

TAX CAPACITY, LEVY, AND RATES



The chart above graphs the tax capacity (not including Tax Increment Financing (TIF) Districts), certified tax levy and tax capacity rate for 2013 through 2017. Tax capacity information for 2017 was not yet available. The tax capacity is based on total tax capacity, prior to adjustments for captured TIF and fiscal disparities. The certified tax levy amount is also prior to fiscal disparity adjustments.

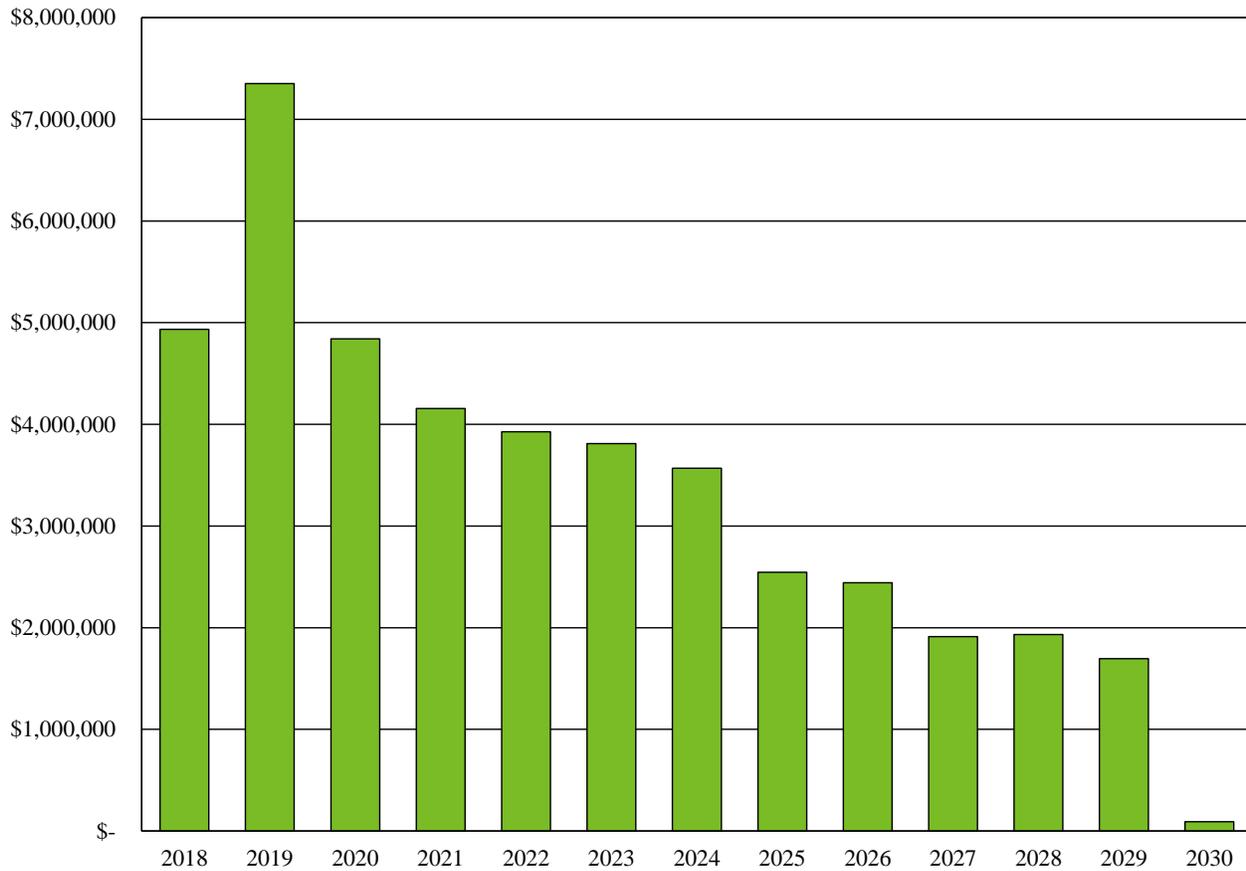
Comparing 2013 through 2017, the City's tax capacity has increased from \$6,224,789 to \$7,421,667 or \$1,196,878 in five years. This is a 19.2% increase in tax capacity. The City's certified levy over this same time frame has increased \$678,681, or 20.2%. As a result of the City's certified tax levy increase and the increase in the tax capacity for 2016 and 2017, the City's tax capacity rate decreased from 57.47% in 2015 to 55.64% in 2017. The tax capacity state-wide average for 2016 was 46.52%.

City of Big Lake Financial Analysis

DEBT SERVICE

The line graph below shows the City's annual debt service obligations for all outstanding bonds. The large increase in bond payments from 2018 to 2019 is due to refunding bonds maturing. The total debt payments outstanding at December 31, 2017, are \$43,205,111, including interest totaling \$4,687,111.

Annual Debt Service Principal and Interest Payments



City of Big Lake Emerging Issues

Executive Summary

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – GASB has issued GASB Statement No. 75 relating to accounting and financial reporting for postemployment benefits other than pensions. This new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.
- **Accounting Standard Update – GASB Statement No. 84 – Fiduciary Activities** – GASB has issued GASB Statement No. 84 relating to accounting and financial reporting for fiduciary activities. This new statement establishes clarity to determine when a government has fiduciary responsibility for a certain activity.
- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following are extensive summaries of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your City.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 – ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

**City of Big Lake
Emerging Issues**

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 – ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

GASB Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.
- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement 75 carries forward from Statement 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

GASB Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Information provided above was obtained from www.gasb.org.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – FIDUCIARY ACTIVITIES

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

**City of Big Lake
Emerging Issues**

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – *FIDUCIARY ACTIVITIES* (CONTINUED)

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB Statement No. 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB Statement No. 84 is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – *LEASES*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**City of Big Lake
Emerging Issues**

**ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – LEASES
(CONTINUED)**

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.