

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

Financial Statements

December 31, 2016



**City of Big Lake
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**City of Big Lake
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**City of Big Lake
Elected Officials and Administration
December 31, 2016**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Raeanne Danielowski	Mayor	December 31, 2016
Duane Langsdorf	Council Member	December 31, 2018
Scott Marotz	Council Member	December 31, 2016
Seth Hansen	Council Member	December 31, 2016
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, 2016, 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Big Lake, Minnesota, as of December 31, 2016, 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 13, 2017, 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 13, 2017

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, 2016. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$52,867,953. Of this amount, \$5,565,863 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased \$1,270,627, from the prior year. Of the increase, 61% was attributable to governmental activities and 39% to business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,520,485, a decrease of \$731,377 from the previous year. The decrease is attributable to the advance refunding payment of outstanding debt.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,796,408 or 65%, of the total General Fund expenditures and transfers out.
- The City's total bonded debt decreased by \$10,210,314 during the current fiscal year. In 2016, the City issued three bonds to refinance existing city debt and take advantage of lower interest rates. The Taxable General Obligation Refunding Bond, Series 2016A refunded the City's Taxable GO Tax Increment Bond, Series 2004C, GO Taxable Tax Increment Bond, Series 2013A and a portion of GO Taxable Tax Increment Abatement Bond, Series 2013B. The GO Capital Improvement Bond, Series 2016B refunded the remaining portion of the GO Taxable Tax Abatement Bond, Series 2013B (the portion of the original bond that was used for the purchase of the building located at 790 Minnesota Ave, Big Lake. The GO Improvement Crossover Refunding Bond, Series 2016C will refund the GO Improvement Bond, Series 2010A. The savings due to the refunding is estimated to be \$294,078.

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 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.

City of Big Lake Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements (Continued)

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).

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 16-18 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 two categories: governmental funds and proprietary 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 36 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, the Debt Service/Improvement Bond 2008A and for the Debt Service/Taxable Tax Abatement Bond 2013B. Data from the other 32 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 19-25 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 26-28 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 financial statements can be found on pages 29-66 of this report.

Other Information

Required supplementary information pertaining to the net pension liability can be found on pages 67-72 of this report.

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 73-87 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 exceeded liabilities by \$52,867,953 at the close of the most recent fiscal year.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Analysis (Continued)

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, 9%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$5,565,863 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's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 14,843,977	\$ 15,589,562	\$ 4,994,490	\$ 9,794,244	\$ 19,838,467	\$ 25,383,806
Capital Assets	29,651,630	30,657,275	51,895,194	53,643,059	81,546,824	84,300,334
Total Assets	\$ 44,495,607	\$ 46,246,837	\$ 56,889,684	\$ 63,437,303	\$ 101,385,291	\$ 109,684,140
Deferred Outflows of Resources	\$ 3,274,524	\$ 469,302	\$ 632,046	\$ 114,207	\$ 3,906,570	\$ 583,509
Noncurrent Liabilities Outstanding	\$ 22,257,442	\$ 18,458,548	\$ 22,958,074	\$ 24,549,207	\$ 45,215,516	\$ 43,007,755
Other Liabilities	3,853,766	7,679,006	2,647,492	7,618,830	6,501,258	15,297,836
Total Liabilities	\$ 26,111,208	\$ 26,137,554	\$ 25,605,566	\$ 32,168,037	\$ 51,716,774	\$ 58,305,591
Deferred Inflows of Resources	\$ 544,158	\$ 244,581	\$ 162,976	\$ 120,151	\$ 707,134	\$ 364,732
NET POSITION						
Net Investment in Capital Assets	\$ 14,330,114	\$ 13,875,975	\$ 28,191,999	\$ 28,039,804	\$ 42,522,113	\$ 41,915,779
Restricted	4,779,977	5,514,210	-	-	4,779,977	5,514,210
Unrestricted	2,004,674	943,819	3,561,189	3,223,518	5,565,863	4,167,337
Total Net Position	\$ 21,114,765	\$ 20,334,004	\$ 31,753,188	\$ 31,263,322	\$ 52,867,953	\$ 51,597,326

The City's net position increased by \$1,270,627 during the current fiscal year. Of this increase, governmental activities increased the City's net position by 61% or \$780,761. Business-type activities increased the City's net position by 39% or \$489,866.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Activities

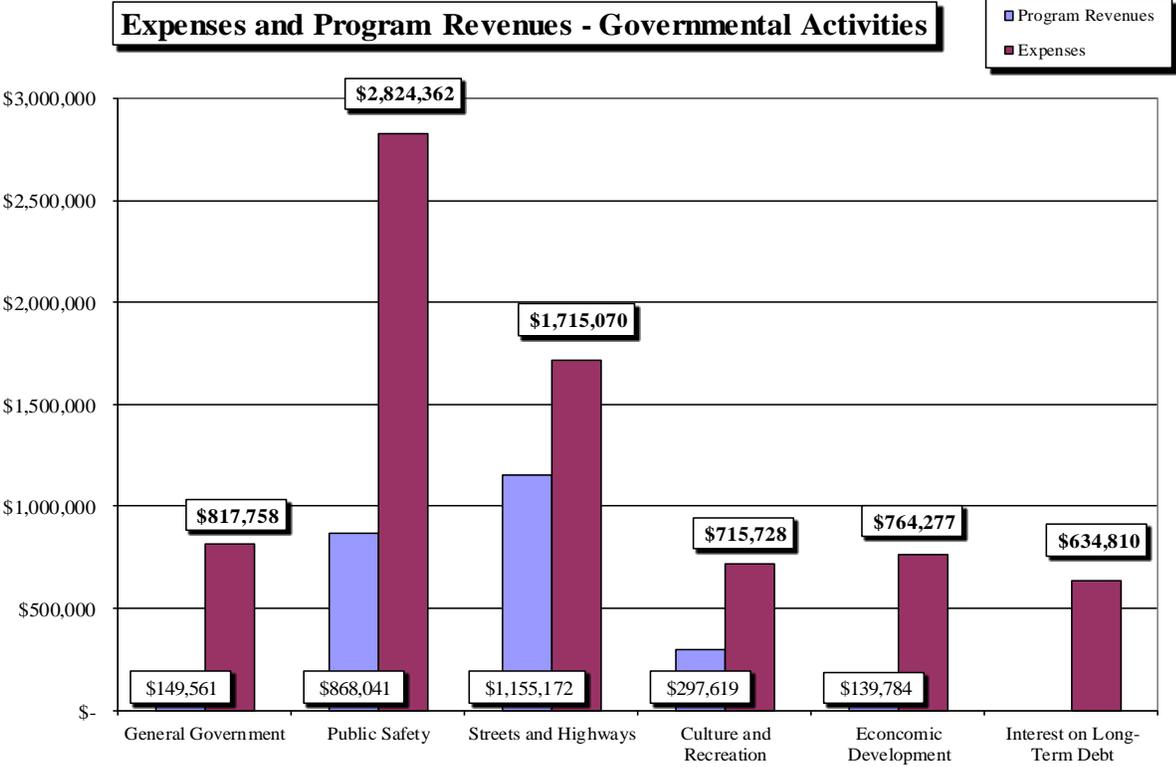
City of Big Lake's Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUE:						
Program Revenues:						
Charges for Services	\$ 823,937	\$ 679,364	\$ 8,872,542	\$ 8,659,056	\$ 9,696,479	\$ 9,338,420
Operating Grants and Contributions	574,835	429,703	45,700	10,130	620,535	439,833
Capital Grants and Contributions	1,211,405	857,436	192,242	359,021	1,403,647	1,216,457
General Revenues:						
Property Taxes and Tax Increment and Franchise Fees	4,339,909	4,397,797	-	-	4,339,909	4,397,797
State Aids	542,339	529,010	-	-	542,339	529,010
Unrestricted Investment Earnings	71,836	44,919	105,531	99,661	177,367	144,580
Other Income	208,268	26,519	-	-	208,268	26,519
Total Revenues	\$7,772,529	6,964,748	\$9,216,015	9,127,868	16,988,544	16,092,616
EXPENSES:						
General Government	817,758	698,985	-	-	817,758	698,985
Public Safety	2,824,362	2,027,751	-	-	2,824,362	2,027,751
Streets and Highways	1,715,070	1,583,429	-	-	1,715,070	1,583,429
Culture and Recreation	715,728	565,038	-	-	715,728	565,038
Economic Development	764,277	1,169,261	-	-	764,277	1,169,261
Interest on Long-Term Debt	634,810	777,588	-	-	634,810	777,588
Water	-	-	1,827,785	1,901,628	1,827,785	1,901,628
Sewer	-	-	2,470,971	2,611,429	2,470,971	2,611,429
Municipal Liquor	-	-	3,504,046	3,457,356	3,504,046	3,457,356
Storm Sewer	-	-	443,110	431,790	443,110	431,790
Total Expenses	7,472,005	6,822,052	8,245,912	8,402,203	15,717,917	15,224,255
Increase (Decrease) in Net Position before Transfers	300,524	142,696	970,103	725,665	1,270,627	868,361
Transfers	480,237	424,267	(480,237)	(424,267)	-	-
Increase (Decrease) in Net Position	780,761	566,963	489,866	301,398	1,270,627	868,361
Net Position - Beginning	20,334,004	21,054,819	31,263,322	31,776,055	51,597,326	52,830,874
Prior Period Adjustment	-	(1,287,778)	-	(814,131)	-	(2,101,909)
Net Position - Beginning, Restated	20,334,004	19,767,041	31,263,322	30,961,924	51,597,326	50,728,965
Net Position - Ending	\$ 21,114,765	\$ 20,334,004	\$ 31,753,188	\$ 31,263,322	\$ 52,867,953	\$ 51,597,326

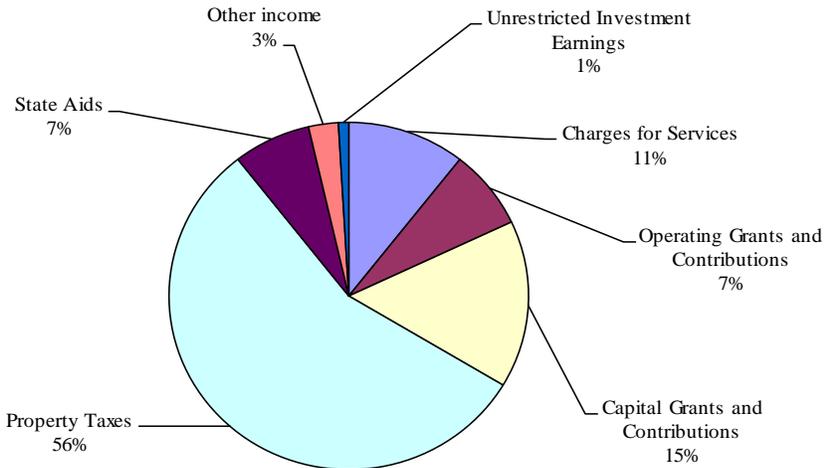
The City's net position increased by \$1,270,627 during the current fiscal year. Of this increase, governmental activities increased the City's net position by 61% or \$780,761. This increase can be attributed to new development, with the increase of single-family housing permits issued in 2016 verses 2015.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

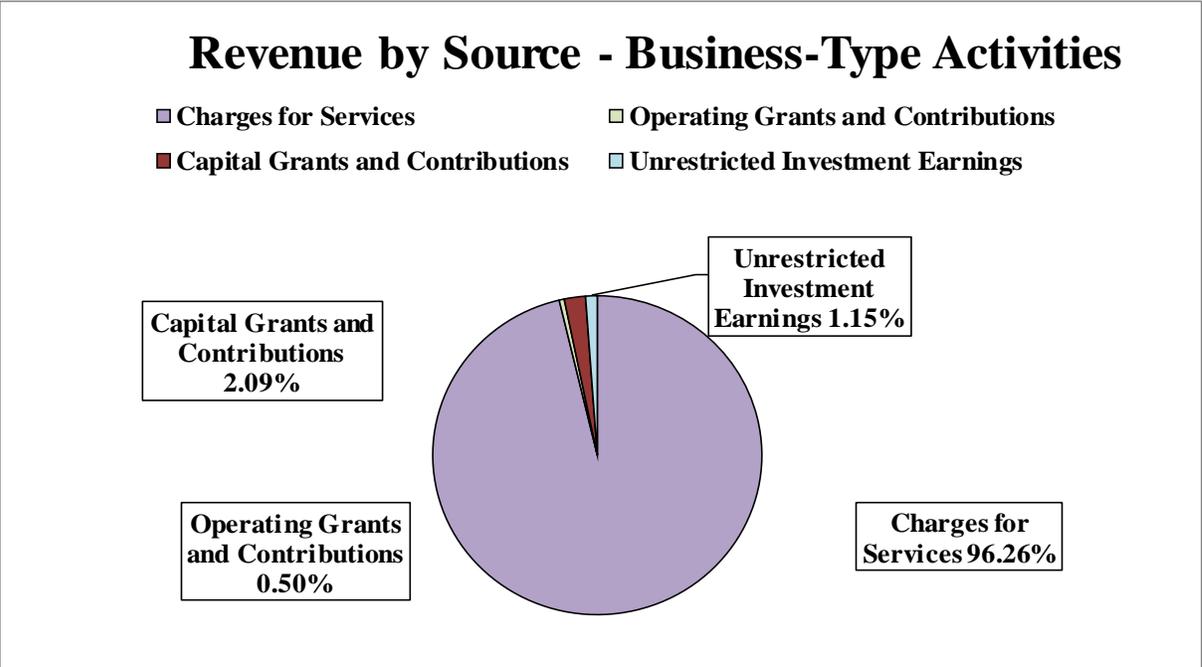
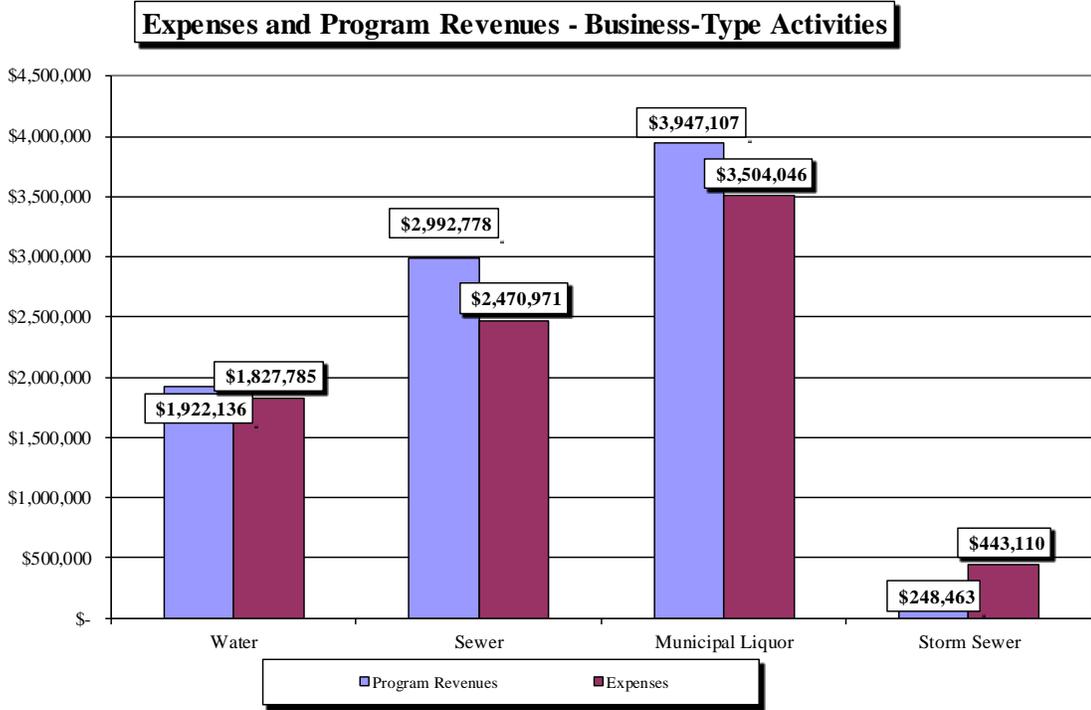


Revenues by Source - Governmental Activities



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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)



Business-Type Activities

Business-type activities increased the City's net position by \$489,866, resulting in 39% of the total increase in the government's net position. Business-type activities net position increase can be attributed to the decrease in account receivables, outstanding debt, as well as advances to other funds.

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, unassigned 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 \$10,520,485, a decrease of \$731,377 from the previous year. Approximately 51% of this total amount, \$5,388,272 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 \$2,941,987, while total fund balance reached \$3,024,172. 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 68% of the total General Fund expenditures and transfers out, while total fund balance represents 70% of that same amount.

The fund balance of the City's General Fund increased by \$320,483 during the current fiscal year. Total revenues and transfers in were \$642,382 over budget due to an increase in revenues for Building permits, Street Light Revenues, Franchise Fees, Fines and Forfeitures and Donations. Expenditures and transfers out ended 2016 over budget by \$321,899 primarily due to an approved transfer of \$350,000 to the Capital Infrastructure/Replacement Funds for future improvement projects.

The GO Improvement Bond, Series 2004B was closed as the debt was paid in full and the remaining funds were transferred to the General Fund.

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 \$(527,864), those for the sewer operations amounted to \$3,071,810 and the storm sewer operations were \$103,476, those for the liquor operations amounted to \$913,767. The changes in net position for each of the utility funds were as follows: water an increase of \$32,934, sewer an increase of \$572,993, and storm sewer a decrease of \$(233,046). The liquor fund saw an increase of \$116,985. 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**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

Proprietary Funds (Continued)

The Municipal Liquor Store realized income before transfers of \$446,985. With an operating transfer of \$280,000 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, 2016, amounts to \$81,546,824 (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	
	2016	2015	2016	2015	2016	2015
Land	\$ 8,025,819	\$ 8,025,819	\$ 1,534,320	\$ 1,534,320	\$ 9,560,139	\$ 9,560,139
Construction in Progress	171,816	122,763	-	749,234	171,816	871,997
Leasehold Improvements	38,540	42,117	97,866	103,908	136,406	146,025
Infrastructure	17,791,562	18,511,642	-	-	17,791,562	18,511,642
Collection and Distribution Systems	-	-	26,883,885	27,243,447	26,883,885	27,243,447
Buildings	3,145,736	3,519,910	23,005,255	23,926,858	26,150,991	27,446,768
Machinery and Equipment	478,157	435,024	373,868	85,292	852,025	520,316
Total	\$ 29,651,630	\$ 30,657,275	\$ 51,895,194	\$ 53,643,059	\$ 81,546,824	\$ 84,300,334

Additional information on the City's capital assets can be found in Note 6 on pages 43-44 of this report.

Long-Term Debt

At the end of the current fiscal year, the City had a total bonded debt outstanding of \$42,683,686. Of this amount, \$2,450,000 comprises debt backed by the full faith and credit of the government and \$12,870,000 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	
	2016	2015	2016	2015	2016	2015
G.O. Bonds/Notes	\$ 2,450,000	\$ 2,940,000	\$ -	\$ -	\$ 2,450,000	\$ 2,940,000
G.O. Tax Increment Bonds	3,595,000	1,735,000	-	-	3,595,000	1,735,000
G.O. Special Assessment Bonds	12,870,000	16,060,000	-	-	12,870,000	16,060,000
PFA Drinking Water Revolving Loan	-	-	4,152,000	4,615,000	4,152,000	4,615,000
PFA Clean Water Revolving Loan	-	-	10,832,000	11,534,000	10,832,000	11,534,000
G.O. Taxable Tax Abatement Bonds	269,200	2,216,530	715,800	788,470	985,000	3,005,000
G.O. Revenue Bonds/Notes	-	-	7,745,000	13,005,000	7,745,000	13,005,000
Capital Lease	54,686	-	-	-	54,686	-
Total	\$ 19,238,886	\$ 22,951,530	\$ 23,444,800	\$ 29,942,470	\$ 42,683,686	\$ 52,894,000

City of Big Lake Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Long-Term Debt(Continued)

Total bonded debt decreased by \$10,210,314 during the current fiscal year due to the advance refunding of City's outstanding obligations to realize a future interest savings of approximately \$1,300,000, with the 2015 and 2016 bond refundings.

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 45-50 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Budgeted spending for the City's General Fund for 2017 was increased by 6.85% over the 2016 budget; for an overall balanced budget of \$4,286,269.
- The 2017 total levy amount of \$4,036,869 was a 3.75% increase over the 2016 amount.
- The Net Tax Capacity is projected to increase by 2.4% for 2017, with Taxable Market Value increasing by 3.27%.
- In 2017, the City anticipates receiving approximately \$543,623 in LGA, as compared to \$538,948 received in 2016. 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 2016 based on the rate study conducted by Progressive Consulting Engineers in 2015; the city implemented the new rate structure in the first quarter of 2016. 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 100 new permits, compared to the 58 issued in 2016.

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, 2016**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments (including cash equivalents)	\$ 8,462,357	\$ 2,464,368	\$ 10,926,725
Cash with fiscal agent	2,572,690	95	2,572,785
Receivables			
Property tax receivable	237,086	-	237,086
Accounts receivable	119,353	431,265	550,618
Interest receivable	9,874	-	9,874
Notes receivable	689,073	-	689,073
Special assessments receivable			
Delinquent	83,296	25,552	108,848
Deferred	1,835,386	215,145	2,050,531
Due from other governments	319,613	119	319,732
Advances to other funds (internal balances)			
Within one year	(27,414)	27,414	-
After one year	(1,094,840)	1,094,840	-
Inventories	-	688,030	688,030
Land held for resale	1,501,900	-	1,501,900
Prepaid items	82,185	47,662	129,847
Deferred charges	-	-	-
Net pension asset - Fire Relief Association	53,418	-	53,418
Capital assets not being depreciated			
Land	8,025,819	1,534,320	9,560,139
Construction in progress	171,816	-	171,816
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	3,977,154	1,316,054	5,293,208
Collection and distribution systems	-	46,280,812	46,280,812
Less accumulated depreciation	(24,738,870)	(25,107,916)	(49,846,786)
Total assets	44,495,607	56,889,684	101,385,291
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	3,274,524	632,046	3,906,570
Total assets and deferred outflows of resources	\$ 47,770,131	\$ 57,521,730	\$ 105,291,861

**City of Big Lake
Statement of Net Position
December 31, 2016**

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts payable	\$ 226,427	\$ 152,171	\$ 378,598
Salaries and benefits payable	64,494	49,838	114,332
Escrow payable	531,862	-	531,862
Contracts payable	28,200	-	28,200
Due to other governments	317,937	38,035	355,972
Interest payable	219,453	239,627	459,080
Unearned revenue	256,313	7,803	264,116
Net G.O. Bonds principal payable			
Payable within one year	1,880,000	-	1,880,000
Payable after one year	15,616,717	-	15,616,717
G.O. Revenue Bonds payable			
Payable within one year	27,330	2,081,670	2,109,000
Payable after one year	248,573	21,621,620	21,870,193
Notes payable			
Payable within one year	122,000	-	122,000
Payable after one year	1,643,000	-	1,643,000
Capital lease payable:			
Payable within one year	14,885	-	14,885
Payable after one year	39,801	-	39,801
Compensated absences payable			
Payable within one year	164,865	78,348	243,213
Net pension liability	4,671,589	1,336,454	6,008,043
Severance payable			
Payable after one year	37,762	-	37,762
Total liabilities	<u>26,111,208</u>	<u>25,605,566</u>	<u>51,716,774</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	<u>544,158</u>	<u>162,976</u>	<u>707,134</u>
Net Position			
Net investment of capital assets	14,330,114	28,191,999	42,522,113
Restricted for			
Debt service	4,386,372	-	4,386,372
Tax increment	136,950	-	136,950
Neighborhood stabilization	9,956	-	9,956
Parkland dedication	237,326	-	237,326
Other purposes	9,373	-	9,373
Unrestricted	2,004,674	3,561,189	5,565,863
Total net position	<u>21,114,765</u>	<u>31,753,188</u>	<u>52,867,953</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 47,770,131</u>	<u>\$ 57,521,730</u>	<u>\$ 105,291,861</u>

**City of Big Lake
Statement of Activities
Year Ended December 31, 2016**

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	\$ 817,758	\$ 89,039	\$ 60,522	\$ -	\$ (668,197)	\$ -	\$ (668,197)
Public safety	2,824,362	502,092	360,494	5,455	(1,956,321)	-	(1,956,321)
Streets and highways	1,715,070	160,501	54,536	940,135	(559,898)	-	(559,898)
Culture and recreation	715,728	66,971	89,342	141,306	(418,109)	-	(418,109)
Economic development	764,277	5,334	9,941	124,509	(624,493)	-	(624,493)
Interest on long-term debt	634,810	-	-	-	(634,810)	-	(634,810)
Total governmental activities	<u>7,472,005</u>	<u>823,937</u>	<u>574,835</u>	<u>1,211,405</u>	<u>(4,861,828)</u>	<u>-</u>	<u>(4,861,828)</u>
Business-type activities							
Water	1,827,785	1,891,744	30,392	-	-	94,351	94,351
Sewer	2,470,971	2,790,169	10,367	192,242	-	521,807	521,807
Liquor	3,504,046	3,942,618	4,489	-	-	443,061	443,061
Storm sewer	443,110	248,011	452	-	-	(194,647)	(194,647)
Total business-type activities	<u>8,245,912</u>	<u>8,872,542</u>	<u>45,700</u>	<u>192,242</u>	<u>-</u>	<u>864,572</u>	<u>864,572</u>
Total governmental and business-type activities	<u>\$ 15,717,917</u>	<u>\$ 9,696,479</u>	<u>\$ 620,535</u>	<u>\$ 1,403,647</u>	<u>(4,861,828)</u>	<u>864,572</u>	<u>(3,997,256)</u>
General revenues							
Property taxes					3,770,426	-	3,770,426
Franchise Fees					442,833	-	442,833
Tax increments					126,650	-	126,650
State aids					542,339	-	542,339
Unrestricted investment and other interest income					71,836	77,531	149,367
Other general revenue					12,345	-	12,345
Gain on sale of assets					195,923	28,000	223,923
Transfers					480,237	(480,237)	-
Total general revenues and transfers					<u>5,642,589</u>	<u>(374,706)</u>	<u>5,267,883</u>
Change in net position					780,761	489,866	1,270,627
Net position - beginning					20,334,004	31,263,322	51,597,326
Net position - ending					<u>\$ 21,114,765</u>	<u>\$ 31,753,188</u>	<u>\$ 52,867,953</u>

City of Big Lake
Balance Sheet - Governmental Funds
December 31, 2016

	General (101)	Capital Project	Other Governmental Funds	Total Governmental Funds
		Infrastructure Improvement Fund (198)		
Assets				
Cash and investments	\$ 3,184,499	\$ 1,597,742	\$ 3,680,116	\$ 8,462,357
Cash with fiscal agent	-	-	2,572,690	2,572,690
Taxes receivable - delinquent	152,649	-	84,437	237,086
Accounts receivable	111,973	-	7,380	119,353
Interest receivable	9,874	-	-	9,874
Due from other governments	181,898	39,318	98,397	319,613
Notes receivable	-	-	689,073	689,073
Special assessment receivable				
Delinquent	1,226	2,626	79,444	83,296
Deferred	5,010	-	1,830,376	1,835,386
Land held for resale	-	-	1,501,900	1,501,900
Prepaid items	82,185	-	-	82,185
Total assets	\$ 3,729,314	\$ 1,639,686	\$ 10,543,813	\$ 15,912,813
Liabilities				
Accounts payable	\$ 56,572	\$ 2,986	\$ 166,869	\$ 226,427
Salaries and benefits payable	64,494	-	-	64,494
Escrow payable	161,177	-	370,685	531,862
Contracts payable	-	9,276	18,924	28,200
Due to other governments	185,169	-	132,768	317,937
Advances from other funds	55,924	-	1,066,330	1,122,254
Unearned revenue	22,921	233,392	-	256,313
Total liabilities	546,257	245,654	1,755,576	2,547,487
Deferred Inflows of Resources				
Unavailable revenue - notes receivables	-	-	689,073	689,073
Unavailable revenue - property taxes	152,649	-	84,437	237,086
Unavailable revenue - special assessments	6,236	2,626	1,909,820	1,918,682
Total deferred inflows of resources	158,885	2,626	2,683,330	2,844,841
Fund Balances				
Nonspendable	82,185	-	102,100	184,285
Restricted	-	-	4,947,928	4,947,928
Assigned	145,579	1,391,406	1,225,707	2,762,692
Unassigned	2,796,408	-	(170,828)	2,625,580
Total fund balances	3,024,172	1,391,406	6,104,907	10,520,485
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,729,314	\$ 1,639,686	\$ 10,543,813	\$ 15,912,813

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**City of Big Lake
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2016**

Total fund balances - governmental funds \$ 10,520,485

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	54,390,500
Less accumulated depreciation	(24,738,870)

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.

Long-term liabilities at year-end consist of:

G.O. bonds principal payable	(17,419,200)
Unamortized bond premiums	(353,420)
Notes payable	(1,765,000)
Capital lease payable	(54,686)
Compensated absences payable	(164,865)
Severance payable	(37,762)
Net pension liability	(4,671,589)
Net pension asset	53,418

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.

Property taxes	237,086
Special assessments	83,296

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.

Deferred inflows of resources related to pensions	(544,158)
Deferred outflows of resources related to pensions	3,274,524

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Special assessments	1,835,386
Notes receivable	689,073

Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.

(219,453)

Total net position - governmental activities

\$ 21,114,765

City of Big Lake
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2016

		Debt Service	
		G.O. Taxable	Tax
		Improvement	Abatement
	General (101)	Bonds of	Bonds 2013B
		2008A (208)	(219)
Revenues			
Property taxes	\$ 2,275,498	\$ -	\$ -
Tax increments	-	-	-
Franchise fees	442,833	-	-
Special assessments	2,343	-	-
Licenses and permits	499,653	-	-
Intergovernmental	488,223	-	51,423
Charges for services	257,309	-	-
Fines and forfeitures	43,467	-	-
Miscellaneous			
Investment and other interest income	42,698	(180)	(186)
Contributions and donations	68,405	-	-
Other	86,960	-	-
Total revenues	4,207,389	(180)	51,237
Expenditures			
Current			
General government	674,191	-	-
Public safety	2,025,276	-	-
Streets and highways	497,296	-	-
Culture and recreation	459,268	-	-
Economic development	141,373	-	-
Debt service			
Principal	9,377	2,700,000	1,920,000
Interest and other charges	3,691	57,356	46,665
Capital outlay			
General government	-	-	-
Public safety	61,823	-	-
Streets and highways	-	-	-
Culture and recreation	-	-	-
Economic development	-	-	-
Total expenditures	3,872,295	2,757,356	1,966,665
Excess of revenues over (under) expenditures	335,094	(2,757,536)	(1,915,428)
Other Financing Sources (Uses)			
Proceeds from sale of capital asset	4,947	-	-
Issuance of debt	-	-	-
Bond premium	-	-	-
Proceeds from capital leases	26,213	-	-
Insurance recoveries	50,893	-	-
Transfers in	364,568	2,598,247	2,333,548
Transfers out	(461,232)	-	(7,600)
Total other financing sources (uses)	(14,611)	2,598,247	2,325,948
Net change in fund balances	320,483	(159,289)	410,520
Fund Balances			
Beginning of year	2,703,689	159,289	(410,520)
End of year	\$ 3,024,172	\$ -	\$ -

See notes to financial statements.

<u>Capital Project</u>		
<u>Infrastructure Improvement Fund (198)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 1,518,188	\$ 3,793,686
-	126,650	126,650
-	-	442,833
-	608,328	610,671
-	1,000	500,653
681,539	755,787	1,976,972
-	108,188	365,497
-	11,189	54,656
5,626	23,878	71,836
-	39,282	107,687
-	7,304	94,264
<u>687,165</u>	<u>3,199,794</u>	<u>8,145,405</u>
-	-	674,191
-	4,249	2,029,525
52,363	-	549,659
-	29,158	488,426
-	169,790	311,163
-	4,499,226	9,128,603
-	691,527	799,239
-	26,767	26,767
-	242,813	304,636
290,667	180,279	470,946
-	124,823	124,823
-	174,405	174,405
<u>343,030</u>	<u>6,143,037</u>	<u>15,082,383</u>
344,135	(2,943,243)	(6,936,978)
-	190,976	195,923
-	5,350,000	5,350,000
-	62,589	62,589
-	39,746	65,959
-	-	50,893
350,000	3,772,232	9,418,595
(112,932)	(8,356,594)	(8,938,358)
<u>237,068</u>	<u>1,058,949</u>	<u>6,205,601</u>
581,203	(1,884,294)	(731,377)
<u>810,203</u>	<u>7,989,201</u>	<u>11,251,862</u>
<u>\$ 1,391,406</u>	<u>\$ 6,104,907</u>	<u>\$ 10,520,485</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, 2016**

Total net change in fund balances - governmental funds \$ (731,377)

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	669,232
Depreciation expense	(1,380,806)
Disposal of Capital Assets	(294,071)

Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (1,177)

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.

Bond principal payments	9,128,603
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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. (21,753)

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. 123,593

Proceeds from long-term debt are recognized as another financing source in the governmental funds but have no impact on the changes in net position in the Statement of Activities. (5,415,959)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Special assessments	(487,667)
Long-term notes receivable	(108,765)

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.

Pension expense	(675,832)
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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. (23,260)

Change in net position - governmental activities \$ 780,761

City of Big Lake
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	Budgeted Original and Final	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
Property taxes	\$ 2,167,594	\$ 2,275,498	\$ 107,904
Franchise fees	388,740	442,833	54,093
Special assessments	1,000	2,343	1,343
Licenses and permits	310,175	499,653	189,478
Intergovernmental	398,435	488,223	89,788
Charges for services	256,584	257,309	725
Fines and forfeitures	37,500	43,467	5,967
Miscellaneous revenues			
Investment income	25,000	42,698	17,698
Contributions and donations	4,700	68,405	63,705
Other	53,900	86,960	33,060
Total revenues	3,643,628	4,207,389	563,761
Expenditures			
Current			
General government	708,946	674,191	(34,755)
Public safety	2,052,584	2,025,276	(27,308)
Streets and highways	627,521	497,296	(130,225)
Culture and recreation	457,541	459,268	1,727
Economic development	141,245	141,373	128
Debt service			
Principal	-	9,377	9,377
Interest and other charges	3,291	3,691	400
Capital outlay			
Public safety	9,500	61,823	52,323
Total expenditures	4,000,628	3,872,295	(128,333)
Excess of revenues over (under) expenditures	(357,000)	335,094	692,094
Other Financing Sources (Uses)			
Proceeds from sale of capital asset	5,000	4,947	(53)
Proceeds from capital leases	-	26,213	26,213
Insurance recoveries	18,000	50,893	32,893
Transfers in	345,000	364,568	19,568
Transfers out	(11,000)	(461,232)	(450,232)
Total other financing sources (uses)	357,000	(14,611)	(371,611)
Net change in fund balances	\$ -	320,483	\$ 320,483
Fund Balances			
Beginning of year		2,703,689	
End of year		\$ 3,024,172	

City of Big Lake
Statement of Net Position - Proprietary Funds
December 31, 2016

	Water (301, 399)	Sewer (401, 499)	Liquor (501, 599)	Storm Sewer (601, 699)	Total
Assets					
Current assets					
Cash and cash equivalents	\$ 183,532	\$ 1,490,033	\$ 631,003	\$ 159,800	\$ 2,464,368
Cash with fiscal agent	95	-	-	-	95
Accounts receivable	132,547	274,223	75	24,420	431,265
Advances to other funds - within one year	-	27,414	-	-	27,414
Due from other governments	55	55	-	9	119
Special assessment receivable					
Delinquent	16,092	8,081	-	1,379	25,552
Deferred	86,835	127,415	-	895	215,145
Inventories	-	-	688,030	-	688,030
Prepaid items	20,336	17,490	8,559	1,277	47,662
Total current assets	<u>439,492</u>	<u>1,944,711</u>	<u>1,327,667</u>	<u>187,780</u>	<u>3,899,650</u>
Noncurrent assets					
Advances to other funds - after one year	-	1,648,760	-	-	1,648,760
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	324,073	490,859	199,395	301,727	1,316,054
Total capital assets	<u>27,168,956</u>	<u>40,555,467</u>	<u>2,172,773</u>	<u>7,105,914</u>	<u>77,003,110</u>
Less accumulated depreciation	<u>(9,109,584)</u>	<u>(11,852,874)</u>	<u>(826,114)</u>	<u>(3,319,344)</u>	<u>(25,107,916)</u>
Net capital assets	<u>18,059,372</u>	<u>28,702,593</u>	<u>1,346,659</u>	<u>3,786,570</u>	<u>51,895,194</u>
Total noncurrent assets	<u>18,059,372</u>	<u>30,351,353</u>	<u>1,346,659</u>	<u>3,786,570</u>	<u>53,543,954</u>
Total assets	<u>18,498,864</u>	<u>32,296,064</u>	<u>2,674,326</u>	<u>3,974,350</u>	<u>57,443,604</u>
Deferred Outflows of Resources					
Deferred outflows of resources related to city pensions	196,789	196,789	187,598	50,870	632,046
Total assets and deferred outflows of resources	<u>\$ 18,695,653</u>	<u>\$ 32,492,853</u>	<u>\$ 2,861,924</u>	<u>\$ 4,025,220</u>	<u>\$ 58,075,650</u>
Liabilities					
Current liabilities					
Accounts payable	\$ 37,425	\$ 37,969	\$ 74,080	\$ 2,697	\$ 152,171
Salaries and benefits payable	7,475	7,475	32,981	1,907	49,838
Interest payable	66,290	166,924	6,413	-	239,627
Unearned revenue	-	7,803	-	-	7,803
Due to other governments	661	-	37,374	-	38,035
Current compensated absences	31,428	31,428	5,603	9,889	78,348
Amount due within one year	650,004	1,358,996	72,670	-	2,081,670
Total current liabilities	<u>793,283</u>	<u>1,610,595</u>	<u>229,121</u>	<u>14,493</u>	<u>2,647,492</u>
Noncurrent liabilities					
Advances from other funds	553,920	-	-	-	553,920
G.O. Revenue Bonds, net of unamortized premium	2,231,773	5,753,892	733,625	-	8,719,290
PFA G.O. Revenue note	4,152,000	10,832,000	-	-	14,984,000
Net pension liability	416,108	416,108	396,674	107,564	1,336,454
Less amount due within one year	<u>(650,004)</u>	<u>(1,358,996)</u>	<u>(72,670)</u>	<u>-</u>	<u>(2,081,670)</u>
Total noncurrent liabilities	<u>6,703,797</u>	<u>15,643,004</u>	<u>1,057,629</u>	<u>107,564</u>	<u>23,511,994</u>
Total liabilities	<u>7,497,080</u>	<u>17,253,599</u>	<u>1,286,750</u>	<u>122,057</u>	<u>26,159,486</u>
Deferred Inflows of Resources					
Deferred inflows of resources related to city pensions	50,743	50,743	48,373	13,117	162,976
Net Position					
Net investment in capital assets	11,675,694	12,116,701	613,034	3,786,570	28,191,999
Unrestricted	<u>(527,864)</u>	<u>3,071,810</u>	<u>913,767</u>	<u>103,476</u>	<u>3,561,189</u>
Total net position	<u>11,147,830</u>	<u>15,188,511</u>	<u>1,526,801</u>	<u>3,890,046</u>	<u>31,753,188</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 18,695,653</u>	<u>\$ 32,492,853</u>	<u>\$ 2,861,924</u>	<u>\$ 4,025,220</u>	<u>\$ 58,075,650</u>

City of Big Lake
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended December 31, 2016

	Water (301, 399)	Sewer (401, 499)	Liquor (501, 599)	Storm Sewer (601, 699)	Totals
Sales and cost of sales					
Sales	\$ -	\$ -	\$ 3,940,355	\$ -	\$ 3,940,355
Cost of sales	-	-	2,786,995	-	2,786,995
Gross profit	-	-	1,153,360	-	1,153,360
Operating revenues					
Charges for services	1,613,102	2,345,977	-	241,011	4,200,090
Operating expenses					
Wages and salaries	336,034	331,852	345,032	113,015	1,125,933
Employee benefits	114,913	119,466	94,918	30,798	360,095
Materials and supplies	31,259	68,161	19,888	502	119,810
Repairs and maintenance	19,417	24,796	8,508	3,883	56,604
Professional services	62,079	50,864	71,861	8,268	193,072
Insurance	29,320	22,639	11,828	1,573	65,360
Utilities and refuse	130,582	188,090	26,717	710	346,099
Depreciation	862,733	1,230,840	69,802	277,745	2,441,120
Travel	7,583	7,534	159	1,387	16,663
Bad debt expense	1,106	-	73	-	1,179
Equipment	5,436	-	31,539	777	37,752
Advertising	1,135	1,351	8,580	851	11,917
Dues, memberships, and training	7,772	4,967	5,438	1,273	19,450
Telephone	3,399	7,587	6,184	621	17,791
Postage	6,336	5,968	96	1,222	13,622
Water meters	20,777	-	-	-	20,777
Uniforms	1,166	1,243	588	-	2,997
Miscellaneous	138	1,117	2,257	485	3,997
Total operating expenses	1,641,185	2,066,475	703,468	443,110	4,854,238
Operating income (loss)	(28,083)	279,502	449,892	(202,099)	499,212
Nonoperating revenues (expenses)					
Investment and other interest income	857	73,053	2,798	823	77,531
Gain on sale of asset	-	28,000	-	-	28,000
Grants and contributions	1,620	1,620	1,545	419	5,204
Refunds and reimbursements	19,649	2,219	4,070	-	25,938
Trunk and access charges	283,965	436,422	-	7,000	727,387
Interest expense	(191,426)	(420,906)	(15,843)	-	(628,175)
Amortization expense	4,826	16,410	2,260	-	23,496
Rent	-	1,350	-	-	1,350
Other income	2,180	13,023	2,263	452	17,918
Total nonoperating revenues (expenses)	121,671	151,191	(2,907)	8,694	278,649
Income (loss) before capital contributions and transfers	93,588	430,693	446,985	(193,405)	777,861
Capital contributions	-	192,242	-	-	192,242
Transfers out	(60,654)	(49,942)	(330,000)	(39,641)	(480,237)
Change in net position	32,934	572,993	116,985	(233,046)	489,866
Net position					
Beginning of year	11,114,896	14,615,518	1,409,816	4,123,092	31,263,322
End of year	\$ 11,147,830	\$ 15,188,511	\$ 1,526,801	\$ 3,890,046	\$ 31,753,188

City of Big Lake
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2016

	Water (301, 399)	Sewer (401, 499)	Liquor (501, 599)	Storm Sewer (601, 699)	Total
Cash Flows - Operating Activities					
Receipts from customers and users	\$ 1,571,880	\$ 2,416,551	\$ 3,942,543	\$ 248,273	\$ 8,179,247
Payments to suppliers	(323,227)	(705,252)	(3,041,856)	(19,861)	(4,090,196)
Payments to employees	(451,092)	(451,463)	(404,530)	(116,431)	(1,423,516)
Net cash flows - operating activities	<u>797,561</u>	<u>1,259,836</u>	<u>496,157</u>	<u>111,981</u>	<u>2,665,535</u>
Cash Flows - Noncapital					
Financing activities					
Payment of advances to other funds	-	459,928	-	-	459,928
Receipt of advances from other funds	(100,000)	-	-	-	(100,000)
Refunds and reimbursements	19,649	2,219	4,070	-	25,938
Rent	-	1,350	-	-	1,350
Transfer to other funds	(60,654)	(49,942)	(330,000)	(39,641)	(480,237)
Net cash flows - noncapital financing activities	<u>(141,005)</u>	<u>413,555</u>	<u>(325,930)</u>	<u>(39,641)</u>	<u>(93,021)</u>
Cash Flows - Capital and Related					
Financing Activities					
Trunk and access charges	283,965	436,422	-	7,000	727,387
Principal paid on debt	(627,467)	(1,287,533)	(72,670)	-	(1,987,670)
Interest paid on debt	(204,680)	(453,322)	(16,296)	-	(674,298)
Proceeds from sale of capital assets	-	28,000	-	-	28,000
State grant proceeds	-	192,242	-	-	192,242
Acquisition of capital assets	-	(721,464)	-	-	(721,464)
Net cash flows - capital and related financing activities	<u>(548,182)</u>	<u>(1,805,655)</u>	<u>(88,966)</u>	<u>7,000</u>	<u>(2,435,803)</u>
Cash Flows - Investing Activities					
Interest and dividends received	857	71,655	2,798	823	76,133
Net change in cash and cash equivalents	109,231	(60,609)	84,059	80,163	212,844
Cash and Cash Equivalents, January 1	<u>74,301</u>	<u>1,550,642</u>	<u>546,944</u>	<u>79,637</u>	<u>2,251,524</u>
Cash and Cash Equivalents, December 31	<u>\$ 183,532</u>	<u>\$ 1,490,033</u>	<u>\$ 631,003</u>	<u>\$ 159,800</u>	<u>\$ 2,464,368</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities					
Operating income (loss)	\$ (28,083)	\$ 279,502	\$ 449,892	\$ (202,099)	\$ 499,212
Adjustments to reconcile operating income (loss) to net cash flows - Operating activities					
Other revenues	2,180	13,023	2,263	452	17,918
Depreciation expense	862,733	1,230,840	69,802	277,745	2,441,120
Net pension liability expense	211	211	21,329	22,471	44,222
Accounts receivable	26,148	76,165	(75)	4,874	107,112
Special assessments receivable	(69,560)	(112,711)	-	1,934	(180,337)
Due from other governments	10	91,664	-	2	91,676
Prepaid items	4,670	4,367	1,613	836	11,486
Inventory	-	-	1,628	-	1,628
Accounts payable	(206)	(325,302)	(67,455)	855	(392,108)
Due to other governmental units	(186)	-	3,069	-	2,883
Salaries payable	2,010	2,010	27,781	455	32,256
Unearned revenue	-	2,433	-	-	2,433
Compensated absences payable	(2,366)	(2,366)	(13,690)	4,456	(13,966)
Total adjustments	<u>825,644</u>	<u>980,334</u>	<u>46,265</u>	<u>314,080</u>	<u>2,166,323</u>
Net cash flows - operating activities	<u>\$ 797,561</u>	<u>\$ 1,259,836</u>	<u>\$ 496,157</u>	<u>\$ 111,981</u>	<u>\$ 2,665,535</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.

G.O. Improvement Bond 2008A Debt Service Fund - This Fund accounts for the resources accumulated and payments made for principal and interest on the 2008A long-term debt.

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):

Major Governmental Fund (Continued):

G.O. Taxable Tax Abatement Bonds 2013B Debt Service Fund - This Fund accounts for the resources accumulated and payments made for principal and interest on the 2013B long-term debt.

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

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.

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's 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. 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)**

3. Receivables/Property Taxes (Continued)

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.

4. 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.

5. 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)**

5. 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

6. 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)**

7. 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.

8. 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.

9. 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.

10. 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)**

11. 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)**

12. 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.

13. 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.

14. 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, 2016:

Non-major Governmental Funds	
Economic Development Authority	\$ 38,323
G.O. Tax Increment Bonds of 2004C	19,163
Commercial Redevelopment TIF 1-5	1,569
Street Improvement	9,673

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, 2016, the City's bank balance was \$0 as any remaining deposits at the end of the day are swept into the 4M Fund or are covered by FDIC insurance. At December 31, 2016, the City's deposits had a book balance of \$206,850.

B. Investments

At December 31, 2016, 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	\$ 2,631,051	\$ 295,556	\$ 396,091	\$ 1,793,487	\$ 145,917
Cash and Brokered Money Market Accounts	66,392	66,392	-	-	-
4M Fund	4,222,949	4,222,949	-	-	-
4M Plus	3,796,383	3,796,383	-	-	-
Total	10,716,775	8,381,280	396,091	1,793,487	145,917
Non-Pooled Investments					
4M Fund	915	915	-	-	-
FNMA	573,474	-	-	573,474	-
Treasury Notes	113,688	7,003	7,048	99,637	-
U.S. Treasury State and Local Government Series Time Deposit	1,884,708	22,863	24,526	1,837,319	-
Total	2,572,785	30,781	31,574	2,510,430	-
Total Investments	\$ 13,289,560	\$ 8,412,061	\$ 427,665	\$ 4,303,917	\$ 145,917

City of Big Lake
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The City has the following recurring fair value measurements as of December 31, 2016:

- \$1,998,396 of investments are valued using quoted market prices (Level 1 inputs)
- \$3,204,525 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 diversifying the investments so potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. It also includes specific limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates. No more than 40% of investments should extend beyond five years and in no circumstance, should any extend beyond ten years without specific City Council approval.

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. As of December 31, 2016, the City's investment in FNMA was rated Aaa by Moody's.

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, with the exception of U.S. Treasury Securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested with a single financial institution. As of December 31, 2016, the City's investments in FNMA were 22.3% 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 investment securities will be held in safekeeping by a broker/dealer and they must provide asset protection of \$500,000 through the Securities Investor Protection Corporation (SIPC) and at least another \$49,500,000 supplemental insurance protection. Some City securities held by the City's broker-dealer are not registered to the City, but are held in an insured account. The account is insured up to \$500,000 SIPC insurance and the broker-dealer provides an additional aggregate insurance policy for all of its customers as a group, not individually. It is unknown what portion of this policy is applicable to the City's portfolio.

City of Big Lake
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Summary of cash, deposits, and investments as of December 31, 2016:

Petty cash	\$ 3,100
Deposits (Note 3.A.)	206,850
Investments (Note 3.B.)	<u>13,289,560</u>
 Total deposits and investments	 <u><u>\$ 13,499,510</u></u>

Cash, deposits, and investments are presented in the December 31, 2016, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 10,926,725
Cash with fiscal agent	<u>2,572,785</u>
 Total	 <u><u>\$ 13,499,510</u></u>

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 \$485,000, and the G.O. Capital Improvement Bonds of 2012A for fire hall funding amounting to \$150,000. 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 \$54,073, for a grand total of notes receivable of \$689,073.

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

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Advances to/from Other Funds

The composition of advances as of December 31, 2016, was as follows:

	Advances from Sewer Fund
Advances to	
General Fund	\$ 55,924
Other Governmental Funds	1,066,330
Water Fund	553,920
Total	\$ 1,676,174

The amounts due to the Sewer Fund represent interfund loans to absorb temporary negative cash balances and to temporarily fund capital projects. \$27,414 of this balance is due within one year

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2016, was as follows:

	Transfers In					Total
	General Fund	G.O. Improvement Bonds of 2008A	G.O. Taxable Tax Abatement Bonds 2013B	Infrastructure Improvements	Other Governmental Funds	
Transfers out						
General Fund	\$ -	\$ -	\$ -	\$ 300,000	\$ 161,232	\$ 461,232
G.O. Taxable Tax Abatement Bonds of 2013B	-	-	-	-	7,600	7,600
Infrastructure Improvement	-	-	-	-	112,932	112,932
Other Governmental Funds	84,568	2,556,651	2,333,548	-	3,381,827	8,356,594
Water Fund	-	-	-	-	60,654	60,654
Sewer Fund	-	31,355	-	-	18,587	49,942
Liquor Fund	280,000	-	-	50,000	-	330,000
Storm Sewer Fund	-	10,241	-	-	29,400	39,641
Total	\$ 364,568	\$ 2,598,247	\$ 2,333,548	\$ 350,000	\$ 3,772,232	\$ 9,418,595

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, 2016, 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	122,763	182,272	133,219	171,816
Total capital assets not being depreciated	<u>8,148,582</u>	<u>182,272</u>	<u>133,219</u>	<u>8,197,635</u>
Capital assets being depreciated				
Infrastructure	36,842,898	321,651	-	37,164,549
Buildings	5,364,426	-	384,807	4,979,619
Leasehold improvements	71,543	-	-	71,543
Machinery and equipment	<u>3,901,797</u>	<u>251,929</u>	<u>176,572</u>	<u>3,977,154</u>
Total capital assets being depreciated	<u>46,180,664</u>	<u>573,580</u>	<u>561,379</u>	<u>46,192,865</u>
Less accumulated depreciation for				
Infrastructure	18,331,254	1,041,733	-	19,372,987
Buildings	1,844,516	165,781	176,414	1,833,883
Leasehold improvements	29,426	3,577	-	33,003
Machinery and equipment	<u>3,466,775</u>	<u>169,715</u>	<u>137,493</u>	<u>3,498,997</u>
Total accumulated depreciation	<u>23,671,971</u>	<u>1,380,806</u>	<u>313,907</u>	<u>24,738,870</u>
Total capital assets being depreciated, net	<u>22,508,693</u>	<u>(807,226)</u>	<u>247,472</u>	<u>21,453,995</u>
Governmental activities capital assets, net	<u>\$ 30,657,275</u>	<u>\$ (624,954)</u>	<u>\$ 380,691</u>	<u>\$ 29,651,630</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
Construction in progress	749,234	356,276	1,105,510	-
Total capital assets not being depreciated	<u>2,283,554</u>	<u>356,276</u>	<u>1,105,510</u>	<u>1,534,320</u>
Capital assets being depreciated				
Buildings	27,648,091	-	-	27,648,091
Collection and distribution systems	45,175,302	1,105,510	-	46,280,812
Leasehold improvements	223,833	-	-	223,833
Machinery and equipment	1,078,713	336,979	99,638	1,316,054
Total capital assets being depreciated	<u>74,125,939</u>	<u>1,442,489</u>	<u>99,638</u>	<u>75,468,790</u>
Less accumulated depreciation for				
Buildings	3,721,233	921,603	-	4,642,836
Collection and distribution systems	17,931,855	1,465,072	-	19,396,927
Leasehold improvements	119,925	6,042	-	125,967
Machinery and equipment	993,421	48,403	99,638	942,186
Total accumulated depreciation	<u>22,766,434</u>	<u>2,441,120</u>	<u>99,638</u>	<u>25,107,916</u>
Total capital assets being depreciated, net	<u>51,359,505</u>	<u>(998,631)</u>	<u>-</u>	<u>50,360,874</u>
Business-type activities capital assets, net	<u>\$ 53,643,059</u>	<u>\$ (642,355)</u>	<u>\$ 1,105,510</u>	<u>\$ 51,895,194</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	138,392
Streets and highways	1,008,108
Culture and recreation	156,612
Economic development	<u>49,134</u>
Total depreciation expense - governmental activities	<u>\$ 1,380,806</u>
Business-type activities	
Water	\$ 862,733
Sewer	1,230,840
Liquor	69,802
Storm sewer	<u>277,745</u>
Total depreciation expense - business-type activities	<u>\$ 2,441,120</u>

NOTE 7 – LONG-TERM DEBT

A. G.O. Bonds

The City issues 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 March 1, 2015, the City issued \$9,285,000 G.O. Bonds, Series 2015A for the crossover refunding of a portion of the \$2,105,000 G.O. Improvement Bonds, Series 2007A, \$2,060,000 G.O. Utility System Revenue Bonds, Series 2007B, \$1,130,000 G.O. Capital Improvement Plan Bonds, Series 2007C, \$1,325,000 G.O. Utility Revenue Bonds, Series 2007F, \$3,655,000 G.O. Improvement Bonds, Series 2008A and the \$3,000,000 G.O. Utility Revenue Bonds, Series 2008B. 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 2007A, 2007B, 2007C, 2007F, 2008A, and 2008B refunded bonds was February 1, 2016. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of \$1,217,884. The net present value cash flow savings from the transaction was \$1,082,918.

City of Big Lake
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

A. G.O. Bonds (Continued)

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.

On April 27, 2016, the City issued \$590,000 G.O. Capital Improvement Plan Bonds, Series 2016B for the current refunding of a portion of the \$2,220,000 Taxable G.O. Tax Abatement Bonds, Series 2013B. This bond was 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 \$49,927. The net present value cash flow savings from the transaction was \$45,210.

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.

City of Big Lake
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

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. Capital Improvement Bonds of 2009A	2009	1.10%-2.90%	\$ 620,000	2017	\$ 95,000	\$ 95,000
G.O. Improvement Bonds of 2010A	2010	2.00% - 3.80%	3,590,000	2026	2,595,000	250,000
G.O. Refunding Improvement Bonds of 2011A	2011	.40% - 2.45%	2,095,000	2020	1,130,000	200,000
G.O. Refunding Improvement Bonds of 2011B	2011	2.00% - 2.80%	3,415,000	2022	2,280,000	390,000
G.O. Refunding Bonds of 2012A	2012	2.00%-2.70%	1,040,000	2026	660,000	190,000
G.O. Refunding Bonds of 2015A	2015	2.00%-3.00%	4,330,000	2029	4,330,000	475,000
G.O. Capital Improvement Bonds of 2016B	2016	1.00%-2.25%	590,000	2028	590,000	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	269,200	27,330
G.O. Tax Increment Bonds						
G.O. Tax Increment Bonds of 2004	2004	5.00%-5.90%	795,000	2030	710,000	15,000
Taxable G.O. Refunding Bonds						
Taxable G.O. Refunding Bond of 2016A	2016	0.90%-3.10%	2,885,000	2030	2,885,000	220,000
Notes payable						
Transportation Revolving Loan Fund	2010	1.726%	2,465,000	2029	1,765,000	122,000
					<u>19,184,200</u>	<u>2,029,330</u>
Premium on bonds payable					353,420	-
Capital Lease					54,686	14,885
Severance					37,762	-
Compensated absences					164,865	164,865
Total governmental activities					<u>19,794,933</u>	<u>2,209,080</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	4,152,000	475,000
Public Facility Authority Drinking Sewer Revenue Note of 2009	2009	2.41%	13,470,120	2024	10,832,000	719,000
G.O. Refunding Bonds of 2012A	2012	2.00%-2.70%	3,745,000	2026	2,790,000	500,000
Taxable G.O. Tax Abatement Bonds of 2014A	2014	1.50%-2.50%	788,470	2025	715,800	72,670
G.O. Refunding Bonds of 2015A	2015	2.00%-3.00%	4,955,000	2029	4,955,000	315,000
					<u>23,444,800</u>	<u>2,081,670</u>
Premium on bonds payable					258,490	-
Compensated absences					78,348	78,348
Total business-type activities					<u>23,781,638</u>	<u>2,160,018</u>
Total all long-term liabilities					<u>\$ 43,576,571</u>	<u>\$ 4,369,098</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, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
G.O. Improvement Bonds	\$ 17,115,000	\$ 2,465,000	\$ 6,025,000	\$ 13,555,000	\$ 1,645,000
G.O. Revenue /Tax Abatement Bonds	2,216,530	-	1,947,330	269,200	27,330
Taxable G.O. Refunding Bonds	-	2,885,000	-	2,885,000	220,000
G.O. Tax Increment Bonds	1,735,000	-	1,025,000	710,000	15,000
Notes payable	1,885,000	-	120,000	1,765,000	122,000
Capital lease	-	65,959	11,273	54,686	14,885
Premium on bonds	331,667	62,589	40,836	353,420	-
Total bonds payable	<u>23,283,197</u>	<u>5,478,548</u>	<u>9,169,439</u>	<u>19,592,306</u>	<u>2,044,215</u>
Compensated absences	169,153	280,683	284,971	164,865	164,865
Severance	32,297	5,465	-	37,762	-
Total governmental activities	<u>23,484,647</u>	<u>5,764,696</u>	<u>9,454,410</u>	<u>19,794,933</u>	<u>2,209,080</u>
Business-type activities					
Bonds payable					
G.O. Revenue Bonds	13,793,470	-	5,332,670	8,460,800	887,670
PFA G.O. Revenue Notes	16,149,000	-	1,165,000	14,984,000	1,194,000
Premium on bonds	281,985	-	23,495	258,490	-
Total bonds payable	<u>30,224,455</u>	<u>-</u>	<u>6,521,165</u>	<u>23,703,290</u>	<u>2,081,670</u>
Compensated absences	92,314	58,677	72,643	78,348	78,348
Total business-type activities	<u>30,316,769</u>	<u>58,677</u>	<u>6,593,808</u>	<u>23,781,638</u>	<u>2,160,018</u>
Total long-term liabilities	<u>\$ 53,801,416</u>	<u>\$ 5,823,373</u>	<u>\$ 16,048,218</u>	<u>\$ 43,576,571</u>	<u>\$ 4,369,098</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
2017	\$ 1,645,000	\$ 327,133	\$ 1,972,133	\$ 27,330	\$ 5,596	\$ 32,926
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
2022-2026	3,695,000	195,015	3,890,015	125,717	6,351	132,068
2027-2030	260,000	6,245	266,245	-	-	-
Total	<u>\$ 13,555,000</u>	<u>\$ 1,294,179</u>	<u>\$ 14,849,179</u>	<u>\$ 269,200</u>	<u>\$ 28,933</u>	<u>\$ 298,133</u>

Year Ending December 31,	Governmental Activities					
	G.O. Tax Increment Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 15,000	\$ 40,755	\$ 55,755	\$ 122,000	\$ 30,464	\$ 152,464
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
2022-2026	-	-	-	689,000	74,336	763,336
2027-2029	-	-	-	443,000	15,380	458,380
Total	<u>\$ 710,000</u>	<u>\$ 100,169</u>	<u>\$ 810,169</u>	<u>\$ 1,765,000</u>	<u>\$ 220,582</u>	<u>\$ 1,985,582</u>

Year Ending December 31,	Taxable G.O. Refunding Bond			Total Governmental Activities		
	Principal	Interest	Total	Principal	Interest	Total
	2017	\$ 220,000	\$ 77,466	\$ 297,466	\$ 2,029,330	\$ 481,414
2018	205,000	57,503	262,503	1,967,697	420,491	2,388,188
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
2022-2026	1,180,000	150,290	1,330,290	5,689,717	425,992	6,115,709
2027-2030	550,000	27,870	577,870	1,253,000	49,495	1,302,495
Total	<u>\$ 2,885,000</u>	<u>\$ 466,481</u>	<u>\$ 3,351,481</u>	<u>\$ 19,184,200</u>	<u>\$ 2,110,344</u>	<u>\$ 21,294,544</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
2017	\$ 887,670	\$ 199,556	\$ 1,087,226	\$ 1,194,000	\$ 366,530	\$ 1,560,530
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
2022-2026	3,169,282	365,389	3,534,671	5,906,000	735,912	6,641,912
2027-2029	1,330,000	54,032	1,384,032	2,806,000	136,560	2,942,560
Total	<u>\$ 8,460,800</u>	<u>\$ 1,220,245</u>	<u>\$ 9,681,045</u>	<u>\$ 14,984,000</u>	<u>\$ 2,404,022</u>	<u>\$ 17,388,022</u>

Year Ending December 31,	Business-Type Activities		
	Total Business-Type Activities		
	Principal	Interest	Total
2017	\$ 2,081,670	\$ 566,086	\$ 2,647,756
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
2022-2026	9,075,282	1,101,301	10,176,583
2027-2029	4,136,000	190,592	4,326,592
Total	<u>\$ 23,444,800</u>	<u>\$ 3,624,267</u>	<u>\$ 27,069,067</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)

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

Year Ending December 31,		
2017	\$	18,260
2018		18,260
2019		8,883
2020		8,883
2021		8,883
Total minimum lease payments		63,169
Less amount representing interest		(8,483)
Present value of net minimum lease payments	\$	54,686

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 \$627, for a net value of \$36,975. The asset added through this lease exceeds the lease amount since the asset was also financed with other revenue sources.

F. Conduit debt

Conduit debt obligations are certain limited-obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued a revenue bond to provide funding to a private-sector entity for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2016, the City's outstanding conduit debt balances consisted of the following:

\$1,950,000 Commercial Facility Revenue Note (Options, Inc. Project), Series 2005	\$ 210,064
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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	Infrastructure Improvement	Nonmajor Governmental Fund	Total
Nonspendable				
Land held for resale	\$ -	\$ -	\$ 102,100	\$ 102,100
Prepaid items	82,185	-	-	82,185
Total nonspendable	<u>82,185</u>	<u>-</u>	<u>102,100</u>	<u>184,285</u>
Restricted				
Debt service	-	-	4,554,323	4,554,323
Park development	-	-	237,326	237,326
Neighborhood stabilization program	-	-	9,956	9,956
TIF	-	-	136,950	136,950
Police traffic safety	-	-	847	847
DWI forfeiture	-	-	3,895	3,895
Narcotic forfeiture	-	-	4,631	4,631
Total restricted	<u>-</u>	<u>-</u>	<u>4,947,928</u>	<u>4,947,928</u>
Assigned				
Local development	-	-	120,607	120,607
Industrial park expansion	-	-	672,196	672,196
Capital infrastructure replacement	-	1,391,406	-	1,391,406
Farmers market	-	-	518	518
Veterans memorial fund	-	-	24,129	24,129
Fire capital purchases	21,821	-	-	21,821
Police capital purchases	53,944	-	-	53,944
Equipment and building replacements	-	-	408,257	408,257
Parks capital purchases	61,211	-	-	61,211
Administrative purchases	8,603	-	-	8,603
Total assigned	<u>145,579</u>	<u>1,391,406</u>	<u>1,225,707</u>	<u>2,762,692</u>
Unassigned	<u>2,796,408</u>	<u>-</u>	<u>(170,828)</u>	<u>2,625,580</u>
Total	<u>\$ 3,024,172</u>	<u>\$ 1,391,406</u>	<u>\$ 6,104,907</u>	<u>\$ 10,520,485</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 2016 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2016, 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, 2016 was \$1,013,247. 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 either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$146,423. 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 2016. The City was required to contribute 16.2% of pay for PEPFF members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$131,713. 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, 2016, the City reported a liability of \$2,476,450 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 2016. 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 \$32,345. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion share was 0.0305%, which was an increase of 0.0035% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$353,934 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$9,644 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, 2016, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 201,175
Changes in actuarial assumptions	484,890	-
Difference between projected and actual investment earnings	470,043	-
Changes in proportion	143,038	100,821
Contributions paid to PERA subsequent to the measurement date	<u>73,212</u>	<u>-</u>
Total	<u>\$ 1,171,183</u>	<u>\$ 301,996</u>

\$73,212 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, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>December 31,</u>	Pension Expense <u>Amount</u>
2017	\$ 209,847
2018	209,850
2019	286,825
2020	<u>89,453</u>
Total	<u>\$ 795,975</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, 2016, the City reported a liability of \$3,531,593 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.088%, which was an increase of 0.001% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$617,608 for its proportionate share of the Police and Fire Fund pension expense. The City also recognized \$7,920 for the year ended December 31, 2016, as pension expense (and grant revenue) 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.

At December 31, 2016, 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
Differences between expected and actual economic experience	\$ -	\$ 405,138
Changes in actuarial assumptions	1,943,591	-
Difference between projected and actual investment earnings	538,948	-
Changes in proportion	45,336	-
Contributions paid to PERA subsequent to the measurement date	65,857	-
Total	\$ 2,593,732	\$ 405,138

**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)

\$65,857 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Pension Expense</u> <u>Amount</u>
2017	\$ 457,716
2018	457,716
2019	457,720
2020	414,165
2021	<u>335,420</u>
Total	<u>\$ 2,122,737</u>

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, 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 the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016, 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 experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

**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 2016:

General Employees Fund

- 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, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Fund

- 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.

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	45%	5.50 %
International stock	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
	<hr/>	
Total	<u>100%</u>	

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

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. 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 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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

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 <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase in Discount Rate <u>(8.5%)</u>
City's proprionate share of the General Employees Fund net pension liability	\$ 3,517,291	\$ 2,476,450	\$ 1,619,078
	1% Decrease in Discount Rate <u>(4.6%)</u>	Discount Rate <u>(5.6%)</u>	1% Increase in Discount Rate <u>(6.6%)</u>
City's proprionate share of the Police and Fire Fund net pension liability	\$ 4,943,762	\$ 3,531,593	\$ 2,377,744

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

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

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.

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, 2015, the following employees were covered by the benefit terms:

Inactive members entitled to but not yet receiving benefits	12
Active members	35
	<hr/>
Total	47
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**City of Big Lake
Notes to Financial Statements**

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

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

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 \$95,430 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, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions.

The total pension liability in the December 31, 2015, 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	5.75 %, 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.

**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)

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>
Mutual funds	81.5%	5.75%
Asset backed securities	5.2%	5.75%
Deposits	0.3%	0.00%
Brokered certificates of deposit	12.8%	5.75%
Brokered money markets	0.1%	5.75%
Total	<u>100%</u>	

Discount rate:

The discount rate used to measure the total pension liability was 5.75%. 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, 2015	\$ 574,097	\$ 702,787	\$ (128,690)
Changes for the year			
Service cost	22,965	-	22,965
Interest	32,111	-	32,111
Changes in benefit terms	61,693	-	61,693
Municipal contributions	-	4,000	(4,000)
State contributions	-	47,715	(47,715)
Projected investment return	-	40,939	(40,939)
Gain or loss	-	(49,135)	49,135
Benefit payments, including refunds of employee contributions	(31,300)	(31,300)	-
Administrative expense	-	(2,022)	2,022
Other charges	-	-	-
Net charges	85,469	10,197	75,272
Balances at December 31, 2015	\$ 659,566	\$ 712,984	\$ (53,418)

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 5.75%, 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 (4.75%) or 1-percentage-point higher (6.75%) than the current rate:

	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
Relief's net pension liability	\$ (44,533)	\$ (53,418)	\$ (61,852)

**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, 2015, the City recognized pension expense of \$41,705. At December 31, 2016, 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
Net difference between projected and actual earnings on pension plan investments	\$ 42,788	\$ -
Contributions paid to Volunteer Firefighter's Relief Association subsequent to the measurement date	98,867	-
Total	\$ 141,655	\$ -

\$98,867 reported as deferred outflows of resources related to pensions resulting from State and City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

2017	\$ 11,132
2018	11,132
2019	11,132
2020	9,392
Total	\$ 42,788

H. Payable to the Pension Plan

At December 31, 2016, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2016.

City of Big Lake
Notes to Financial Statements

NOTE 11 – COMMITMENTS

	<u>Project Authorization</u>	<u>Expended Through 12/13/2016</u>	<u>Remaining Commitment</u>
CR5 trail and road improvement	\$ 1,301,383	\$ 112,932	\$ 1,188,451

NOTE 12 – TAX ABATEMENT AGREEMENT

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, 2016, the City generated \$126,650 in tax increment revenue and made \$23,430 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, 2016, the City generated \$6,997 of tax increment revenue and made payments on the pay-as-you-go note of \$0. 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, 2016, the City generated \$29,846 of tax increment revenue and made payments on the pay-as-you-go note of \$13,430. The note's balance at year end was \$127,848.
- 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, 2016, the City generated \$44,606 of tax increment revenue and made payments on the pay-as-you-go note of \$10,000. The note's balance at year end was \$486,193.

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 is effective for financial statements for fiscal years beginning after June 15, 2017.

GASB has issued GASB statement 80 relating to blending requirements for certain component units. The new statement amends the blending requirements for financial statement presentation of component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement is effective for financial statements for fiscal years beginning after June 15, 2016.

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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 Associated with the City	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- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0270%	\$ 1,399,280	\$ -	\$ -	\$ 1,562,440	89.6%	78.2%
2016	0.0305%	2,476,449	32,345	2,508,794	1,893,227	130.8%	68.9%

**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- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0870%	\$ 988,524	\$ 773,321	127.8%	86.6%
2016	0.0880%	3,531,593	848,407	416.3%	63.9%

* These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

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

<u>Fiscal Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 123,699	\$ 123,699	\$ -	\$ 1,649,320	7.50%
2016	146,423	146,423	-	1,952,307	7.50%

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

<u>Fiscal Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 133,141	\$ 133,141	\$ -	\$ 821,858	16.2%
2016	131,713	131,713	-	813,043	16.2%

* These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

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

	<u>2014</u>	<u>2015</u>
Total Pension Liability (TPL)		
Service cost	\$ 21,187	\$ 22,965
Interest	33,150	32,111
Differenced between expected and actual experience	-	-
Changes of assumptions	-	-
Changes of benefit terms	-	61,693
Benefit payments, including refunds or member contributions	<u>(48,257)</u>	<u>(31,300)</u>
Net change in total pension liability	<u>6,080</u>	<u>85,469</u>
Beginning of Year (1)	<u>568,017</u>	<u>574,097</u>
End of Year	<u><u>\$ 574,097</u></u>	<u><u>\$ 659,566</u></u>
Plan Fiduciary Net Pension (FNP)		
Contributions - Employer	\$ 49,448	\$ 51,715
Contributions - Employee	-	-
Net Investment Income	30,001	(8,196)
Benefit Payments, Including Refunds Of Member Contributions	(48,256)	(31,300)
Administrative Expense	(1,764)	(2,022)
Other	-	-
Net Change In Plan Fiduciary Net Position	<u>29,429</u>	<u>10,197</u>
Beginning of Year	<u>673,358</u>	<u>702,787</u>
End of Year	<u><u>\$ 702,787</u></u>	<u><u>\$ 712,984</u></u>
Net Pension Liability (npl)	<u><u>\$ (128,690)</u></u>	<u><u>\$ (53,418)</u></u>

The City Implemented The Provisions Of Governmental Accounting Standards Board Statement No. 68 For The Year Ended December 31, 2014. The Schedules Within The Required Supplementary Information Section Required A Ten-year Presentation, But Does Not Require Retroactive Reporting. Information Prior To 2014 Is Not Available.

* A Benefit Level Increase From \$3,400 To \$3,800 Was Reflected In The Active Liability In 2015.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Employer			
Statutorily determined contribution (SDC)	\$ -	\$ -	\$ -
Contribution deficiency SDC	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>
Contribution deficiency (excess)	<u><u>\$ (4,000)</u></u>	<u><u>\$ (4,000)</u></u>	<u><u>\$ (4,000)</u></u>
Non-employer			
2% aid	\$ 90,896	\$ 95,430	\$ 95,867

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

City of Big Lake
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

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

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.

SUPPLEMENTARY INFORMATION

**City of Big Lake
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2016**

	Special Revenue			
	Economic Development Authority (275)	Narcotic Forfeiture (276)	DWI Forfeiture (277)	Traffic Safety Program (278)
Assets				
Cash and investments	\$ 22,029	\$ 4,631	\$ 3,895	\$ 847
Cash with fiscal agent	-	-	-	-
Taxes receivable - delinquent	1,375	-	-	-
Accounts receivable	6,492	-	-	-
Due from other governments	1,940	-	-	-
Notes receivable	54,073	-	-	-
Special assessment receivable				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Land held for resale	102,100	-	-	-
	<u>\$ 188,009</u>	<u>\$ 4,631</u>	<u>\$ 3,895</u>	<u>\$ 847</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Escrow payable	-	-	-	-
Contracts payable	-	-	-	-
Due to other governments	-	-	-	-
Advances from other funds	170,884	-	-	-
Total liabilities	<u>170,884</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue - notes receivables	54,073	-	-	-
Unavailable revenue - property taxes	1,375	-	-	-
Unavailable revenue - special assessments	-	-	-	-
Total deferred inflows of resources	<u>55,448</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	102,100	-	-	-
Restricted	-	4,631	3,895	847
Assigned	-	-	-	-
Unassigned	(140,423)	-	-	-
Total fund balances	<u>(38,323)</u>	<u>4,631</u>	<u>3,895</u>	<u>847</u>
	<u>\$ 188,009</u>	<u>\$ 4,631</u>	<u>\$ 3,895</u>	<u>\$ 847</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 188,009</u>	<u>\$ 4,631</u>	<u>\$ 3,895</u>	<u>\$ 847</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)	G.O. Refunding Bond 2015A (222)
\$ 521	\$ 24,129	\$ 236,303	\$ 7,320	\$ 1,266	\$ 37	\$ 397,570
-	-	687,162	-	1,884,708	-	820
-	-	4,418	1,349	-	-	27,567
-	-	-	-	-	-	-
-	-	4,130	1,814	-	-	22,225
-	-	485,000	-	-	-	-
-	-	-	-	-	-	66,949
-	-	-	-	-	-	905,151
-	-	-	-	-	-	-
<u>\$ 521</u>	<u>\$ 24,129</u>	<u>\$ 1,417,013</u>	<u>\$ 10,483</u>	<u>\$ 1,885,974</u>	<u>\$ 37</u>	<u>\$ 1,420,282</u>
\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	374,852	-	-	19,200	-
<u>3</u>	<u>-</u>	<u>374,852</u>	<u>-</u>	<u>-</u>	<u>19,200</u>	<u>-</u>
-	-	485,000	-	-	-	-
-	-	4,418	1,349	-	-	27,567
-	-	-	-	-	-	972,100
-	-	489,418	1,349	-	-	999,667
-	-	-	-	-	-	-
-	-	552,743	9,134	1,885,974	-	420,615
518	24,129	-	-	-	-	-
-	-	-	-	-	(19,163)	-
<u>518</u>	<u>24,129</u>	<u>552,743</u>	<u>9,134</u>	<u>1,885,974</u>	<u>(19,163)</u>	<u>420,615</u>
<u>\$ 521</u>	<u>\$ 24,129</u>	<u>\$ 1,417,013</u>	<u>\$ 10,483</u>	<u>\$ 1,885,974</u>	<u>\$ 37</u>	<u>\$ 1,420,282</u>

**City of Big Lake
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2016**

	Debt Service			
	G.O. Capital Improvement Plan Bonds, Series 2009A (209)	G.O. State Aid Loan (211)	G.O. Improvement Bond 2010A (212)	G.O. Refunding Bonds of 2014A (221)
Assets				
Cash and investments	\$ 77,524	\$ 15,877	\$ 197,995	\$ 35,786
Cash with fiscal agent	-	-	-	-
Taxes receivable - delinquent	4,872	-	13,762	535
Accounts receivable	-	-	-	-
Due from other governments	2,683	-	12,157	932
Notes receivable	-	-	-	-
Special assessment receivable				
Delinquent	-	-	(160)	-
Deferred	-	-	196,670	-
Land held for resale	-	-	-	-
	<u>85,079</u>	<u>15,877</u>	<u>420,424</u>	<u>37,253</u>
Total assets	<u>\$ 85,079</u>	<u>\$ 15,877</u>	<u>\$ 420,424</u>	<u>\$ 37,253</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Escrow payable	-	-	-	-
Contracts payable	-	-	-	-
Due to other governments	-	-	-	-
Advances from other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue - notes receivables	-	-	-	-
Unavailable revenue - property taxes	4,872	-	13,762	535
Unavailable revenue - special assessments	-	-	196,510	-
Total deferred inflows of resources	<u>4,872</u>	<u>-</u>	<u>210,272</u>	<u>535</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	80,207	15,877	210,152	36,718
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	<u>80,207</u>	<u>15,877</u>	<u>210,152</u>	<u>36,718</u>
	<u>\$ 85,079</u>	<u>\$ 15,877</u>	<u>\$ 420,424</u>	<u>\$ 37,253</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 85,079</u>	<u>\$ 15,877</u>	<u>\$ 420,424</u>	<u>\$ 37,253</u>

Debt Service			Capital Projects		
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)	Industrial Park Expansion Land Purchase (141)
\$ 665,345	\$ 352,019	\$ 282,390	\$ 2,203	\$ 237,326	\$ 113
-	-	-	-	-	-
10,054	17,900	2,605	-	-	-
-	-	-	888	-	-
10,661	16,627	15,861	7,000	-	-
-	-	150,000	-	-	-
6,160	3,315	-	-	-	-
97,332	364,115	265,223	-	-	-
-	-	-	-	-	1,304,640
<u>\$ 789,552</u>	<u>\$ 753,976</u>	<u>\$ 716,079</u>	<u>\$ 10,091</u>	<u>\$ 237,326</u>	<u>\$ 1,304,753</u>
\$ -	\$ -	\$ -	\$ 135	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	132,768
-	-	-	-	-	499,789
-	-	-	135	-	632,557
-	-	150,000	-	-	-
10,054	17,900	2,605	-	-	-
103,492	367,430	265,223	-	-	-
<u>113,546</u>	<u>385,330</u>	<u>417,828</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
676,006	368,646	298,251	9,956	237,326	-
-	-	-	-	-	672,196
-	-	-	-	-	-
<u>676,006</u>	<u>368,646</u>	<u>298,251</u>	<u>9,956</u>	<u>237,326</u>	<u>672,196</u>
<u>\$ 789,552</u>	<u>\$ 753,976</u>	<u>\$ 716,079</u>	<u>\$ 10,091</u>	<u>\$ 237,326</u>	<u>\$ 1,304,753</u>

**City of Big Lake
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2016**

	Capital Projects			
	Local Development (150)	Lake Street Redevelopment TIF 1-3 (165)	Commercial Redevelopment TIF 1-4 (170)	Commercial Redevelopment TIF 1-5 (171)
Assets				
Cash and investments	\$ 511,323	\$ 3,274	\$ 1,026	\$ 36
Cash with fiscal agent	-	-	-	-
Taxes receivable - delinquent	-	-	-	-
Accounts receivable	-	-	-	-
Due from other governments	-	954	1,413	-
Notes receivable	-	-	-	-
Special assessment receivable				
Delinquent	-	-	-	-
Deferred	1,885	-	-	-
Land held for resale	-	-	95,160	-
	<u>513,208</u>	<u>4,228</u>	<u>97,599</u>	<u>36</u>
Total assets	<u>\$ 513,208</u>	<u>\$ 4,228</u>	<u>\$ 97,599</u>	<u>\$ 36</u>
Liabilities				
Accounts payable	\$ 14,231	\$ -	\$ -	\$ -
Escrow payable	360,685	-	-	-
Contracts payable	15,800	-	-	-
Due to other governments	-	-	-	-
Advances from other funds	-	-	-	1,605
Total liabilities	<u>390,716</u>	<u>-</u>	<u>-</u>	<u>1,605</u>
Deferred Inflows of Resources				
Unavailable revenue - notes receivables	-	-	-	-
Unavailable revenue - property taxes	-	-	-	-
Unavailable revenue - special assessments	1,885	-	-	-
Total deferred inflows of resources	<u>1,885</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	-	4,228	97,599	-
Assigned	120,607	-	-	-
Unassigned	-	-	-	(1,569)
Total fund balances	<u>120,607</u>	<u>4,228</u>	<u>97,599</u>	<u>(1,569)</u>
	<u>513,208</u>	<u>4,228</u>	<u>97,599</u>	<u>36</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 513,208</u>	<u>\$ 4,228</u>	<u>\$ 97,599</u>	<u>\$ 36</u>

Capital Projects

TIF 1-6 Cherrywood (172)	Northern Star TIF1-7 (173)	Street Improvement (175)	Equipment and Building Replacements (199)	Total Other Governmental Funds
\$ 15,284	\$ 19,839	\$ 84,951	\$ 479,257	\$ 3,680,116
-	-	-	-	2,572,690
-	-	-	-	84,437
-	-	-	-	7,380
-	-	-	-	98,397
-	-	-	-	689,073
-	-	3,180	-	79,444
-	-	-	-	1,830,376
-	-	-	-	1,501,900
<u>\$ 15,284</u>	<u>\$ 19,839</u>	<u>\$ 88,131</u>	<u>\$ 479,257</u>	<u>\$ 10,543,813</u>
\$ -	\$ -	\$ 81,500	\$ 71,000	166,869
-	-	10,000	-	370,685
-	-	3,124	-	18,924
-	-	-	-	132,768
-	-	-	-	1,066,330
-	-	94,624	71,000	1,755,576
-	-	-	-	689,073
-	-	-	-	84,437
-	-	3,180	-	1,909,820
-	-	3,180	-	2,683,330
-	-	-	-	102,100
15,284	19,839	-	-	4,947,928
-	-	-	408,257	1,225,707
-	-	(9,673)	-	(170,828)
<u>15,284</u>	<u>19,839</u>	<u>(9,673)</u>	<u>408,257</u>	<u>6,104,907</u>
<u>\$ 15,284</u>	<u>\$ 19,839</u>	<u>\$ 88,131</u>	<u>\$ 479,257</u>	<u>\$ 10,543,813</u>

City of Big Lake
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2016

	Special Revenue				
	Economic Development Authority (275)	Narcotic Forfeiture (276)	DWI Forfeiture (277)	Traffic Safety Program (278)	Farmers Market (280)
Revenues					
Property taxes	\$ 49,905	\$ -	\$ -	\$ -	\$ -
Tax increments	-	-	-	-	-
Special assessments	-	-	-	-	-
Licenses and permits	-	-	-	-	1,000
Intergovernmental	4,000	-	-	-	-
Charges for services	16,164	-	-	-	-
Fines and forfeitures	-	3,382	7,807	-	-
Miscellaneous					
Investment and other interest income	1,925	29	25	6	5
Contributions and donations	-	-	-	-	-
Other	896	-	-	-	-
Total revenues	<u>72,890</u>	<u>3,411</u>	<u>7,832</u>	<u>6</u>	<u>1,005</u>
Expenditures					
Current					
Public safety	-	805	3,444	-	-
Culture and recreation	-	-	-	-	-
Economic development	18,479	-	-	-	1,276
Debt service					
Principal	-	-	-	-	-
Interest and other charges	6,029	-	-	-	-
Capital outlay					
General government	-	-	-	-	-
Public safety	-	-	1,389	6,069	-
Streets and highways	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Economic development	-	-	-	-	-
Total expenditures	<u>24,508</u>	<u>805</u>	<u>4,833</u>	<u>6,069</u>	<u>1,276</u>
Excess of revenues over (under) expenditures	48,382	2,606	2,999	(6,063)	(271)
Other Financing Sources (Uses)					
Proceeds from sale of capital asset	-	-	-	-	-
Issuance of debt	-	-	-	-	-
Bond premium	-	-	-	-	-
Proceeds from capital leases	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	48,382	2,606	2,999	(6,063)	(271)
Fund Balances					
Beginning balance	<u>(86,705)</u>	<u>2,025</u>	<u>896</u>	<u>6,910</u>	<u>789</u>
End of year	<u>\$ (38,323)</u>	<u>\$ 4,631</u>	<u>\$ 3,895</u>	<u>\$ 847</u>	<u>\$ 518</u>

Special Revenue

Debt Service

Veterans Memorial Fund (281)	G.O. Taxable Refunding 2016A (223)	G.O. CIP Bond 2016B (224)	G.O. Improvement Refunding 2016C (226)	G.O. Improvement Bonds of 2002A (220)	G.O. Tax Increment Bonds of 2004C (250)	G.O. Refunding Bond 2015A (222)
\$ -	\$ 99,020	\$ 45,910	\$ -	\$ -	\$ -	\$ 531,615
-	-	-	-	-	-	-
-	-	-	-	-	-	157,735
-	6,801	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
100	8,832	226	1,461	-	(230)	616
34,782	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>34,882</u>	<u>114,653</u>	<u>46,136</u>	<u>1,461</u>	<u>-</u>	<u>(230)</u>	<u>689,966</u>
-	-	-	-	-	-	-
16,254	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	15,000	-
-	71,649	23,689	49,775	-	42,230	180,692
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>16,254</u>	<u>71,649</u>	<u>23,689</u>	<u>49,775</u>	<u>-</u>	<u>57,230</u>	<u>180,692</u>
-	-	-	-	-	-	-
18,628	43,004	22,447	(48,314)	-	(57,460)	509,274
-	-	-	-	-	-	-
-	2,885,000	590,000	1,875,000	-	-	-
-	-	3,301	59,288	-	-	-
-	-	-	-	-	-	-
-	263,618	-	-	-	34,673	10
-	(2,638,879)	(606,614)	-	-	-	(4,661,416)
-	<u>509,739</u>	<u>(13,313)</u>	<u>1,934,288</u>	<u>-</u>	<u>34,673</u>	<u>(4,661,406)</u>
18,628	552,743	9,134	1,885,974	-	(22,787)	(4,152,132)
-	-	-	-	-	-	-
5,501	-	-	-	-	3,624	4,572,747
<u>\$ 24,129</u>	<u>\$ 552,743</u>	<u>\$ 9,134</u>	<u>\$ 1,885,974</u>	<u>\$ -</u>	<u>\$ (19,163)</u>	<u>\$ 420,615</u>

City of Big Lake
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2016

	Debt Service			
	G.O. Improvement Bonds of 2004B (245)	G.O. Improvement Bonds of 2007A (215)	G.O. Capital Improvement Bonds 2007C (235)	G.O. Capital Improvement Plan Bonds, Series 2009A (209)
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ 65,663
Tax increments	-	-	-	-
Special assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous				
Investment and other interest income	25	(159)	(33)	134
Contributions and donations	-	-	-	-
Other	-	-	-	-
Total revenues	<u>25</u>	<u>(159)</u>	<u>(33)</u>	<u>65,797</u>
Expenditures				
Current				
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	-	1,340,000	865,000	95,000
Interest and other charges	-	27,077	18,136	4,683
Capital outlay				
General government	-	-	-	-
Public safety	-	-	-	-
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Total expenditures	<u>-</u>	<u>1,367,077</u>	<u>883,136</u>	<u>99,683</u>
Excess of revenues over (under) expenditures	25	(1,367,236)	(883,169)	(33,886)
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	-	-	-
Issuance of debt	-	-	-	-
Bond premium	-	-	-	-
Proceeds from capital leases	-	-	-	-
Transfers in	-	1,334,199	842,033	85,094
Transfers out	(19,568)	(10)	-	-
Total other financing sources (uses)	<u>(19,568)</u>	<u>1,334,189</u>	<u>842,033</u>	<u>85,094</u>
Net change in fund balances	(19,543)	(33,047)	(41,136)	51,208
Fund balances				
Beginning balance	<u>19,543</u>	<u>33,047</u>	<u>41,136</u>	<u>28,999</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,207</u>

Debt Service

G.O. State Aid Loan (211)	G.O. Improvement Bond 2010A (212)	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)
\$ -	\$ 226,479	\$ 23,632	\$ 140,729	\$ 334,609	\$ 626
-	-	-	-	-	-
-	114,739	-	56,347	111,869	135,672
-	-	-	-	-	-
151,499	-	-	-	-	53,523
-	-	-	-	-	-
-	-	-	-	-	-
25	(76)	103	3,799	501	1,402
-	-	-	-	-	-
-	-	-	-	-	-
<u>151,524</u>	<u>341,142</u>	<u>23,735</u>	<u>200,875</u>	<u>446,979</u>	<u>191,223</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
120,000	240,000	27,330	210,000	385,000	190,000
32,535	84,834	6,129	26,284	56,770	15,560
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>152,535</u>	<u>324,834</u>	<u>33,459</u>	<u>236,284</u>	<u>441,770</u>	<u>205,560</u>
(1,011)	16,308	(9,724)	(35,409)	5,209	(14,337)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	6,929	-	-	-
-	-	-	-	-	-
-	-	<u>6,929</u>	<u>-</u>	<u>-</u>	<u>-</u>
(1,011)	16,308	(2,795)	(35,409)	5,209	(14,337)
16,888	193,844	39,513	711,415	363,437	312,588
<u>\$ 15,877</u>	<u>\$ 210,152</u>	<u>\$ 36,718</u>	<u>\$ 676,006</u>	<u>\$ 368,646</u>	<u>\$ 298,251</u>

City of Big Lake
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2016

	Capital Projects				
	G.O. Temporary Taxable Tax Increment Bond 2013A (218)	Neighborhood Stabilization Program (116)	Park Development (120)	Industrial Park Expansion Land Purchase (141)	Local Development (150)
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax increments	-	-	-	-	-
Special assessments	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	78,148	-	46,361	-
Charges for services	-	-	92,024	-	-
Fines and forfeitures	-	-	-	-	-
Miscellaneous					
Investment and other interest income	386	-	1,279	(199)	2,742
Contributions and donations	-	-	4,500	-	-
Other	-	4,438	-	-	-
Total revenues	<u>386</u>	<u>82,586</u>	<u>97,803</u>	<u>46,162</u>	<u>2,742</u>
Expenditures					
Current					
Public safety	-	-	-	-	-
Culture and recreation	-	-	3,820	-	-
Economic development	-	150,035	-	-	-
Debt service					
Principal	1,010,000	-	-	-	-
Interest and other charges	22,528	522	-	17,428	-
Capital outlay					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Streets and highways	-	-	-	-	-
Culture and recreation	-	-	9,235	-	-
Economic development	-	45,802	-	92,721	-
Total expenditures	<u>1,032,528</u>	<u>196,359</u>	<u>13,055</u>	<u>110,149</u>	<u>-</u>
Excess of revenues over (under) expenditures	(1,032,142)	(113,773)	84,748	(63,987)	2,742
Other Financing Sources (Uses)					
Proceeds from sale of capital asset	-	-	-	-	-
Issuance of debt	-	-	-	-	-
Bond premium	-	-	-	-	-
Proceeds from capital leases	-	-	-	-	-
Transfers in	911,944	-	-	-	-
Transfers out	(240,996)	-	-	-	-
Total other financing sources (uses)	<u>670,948</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(361,194)	(113,773)	84,748	(63,987)	2,742
Fund balances					
Beginning balance	<u>361,194</u>	<u>123,729</u>	<u>152,578</u>	<u>736,183</u>	<u>117,865</u>
End of year	<u>\$ -</u>	<u>\$ 9,956</u>	<u>\$ 237,326</u>	<u>\$ 672,196</u>	<u>\$ 120,607</u>

Capital Projects

Lake Street Redevelopment TIF 1-3 (165)	Commercial Redevelopment TIF 1-4 (170)	Commercial Redevelopment TIF 1-5 (171)	TIF 1-6 Cherrywood (172)	Northern Star TIF1-7 (173)	Street Improvement (175)	Equipment and Building Replacements (199)	Total Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,518,188
33,569	11,632	6,997	29,846	44,606	-	-	126,650
-	-	-	-	-	31,966	-	608,328
-	-	-	-	-	-	-	1,000
-	-	-	-	-	-	415,455	755,787
-	-	-	-	-	-	-	108,188
-	-	-	-	-	-	-	11,189
36	29	(11)	8	41	332	519	23,878
-	-	-	-	-	-	-	39,282
-	-	-	-	-	-	1,970	7,304
<u>33,605</u>	<u>11,661</u>	<u>6,986</u>	<u>29,854</u>	<u>44,647</u>	<u>32,298</u>	<u>417,944</u>	<u>3,199,794</u>
-	-	-	-	-	-	-	4,249
-	-	-	-	-	-	9,084	29,158
-	-	-	-	-	-	-	169,790
-	-	-	-	-	-	1,896	4,499,226
-	-	59	4	409	2,196	2,309	691,527
-	-	-	-	-	-	26,767	26,767
-	-	-	-	-	-	235,355	242,813
-	-	-	-	-	180,279	-	180,279
-	-	-	-	-	-	115,588	124,823
990	989	4,491	14,422	14,990	-	-	174,405
<u>990</u>	<u>989</u>	<u>4,550</u>	<u>14,426</u>	<u>15,399</u>	<u>182,475</u>	<u>390,999</u>	<u>6,143,037</u>
32,615	10,672	2,436	15,428	29,248	(150,177)	26,945	(2,943,243)
-	-	-	-	-	-	190,976	190,976
-	-	-	-	-	-	-	5,350,000
-	-	-	-	-	-	-	62,589
-	-	-	-	-	-	39,746	39,746
-	-	-	-	-	117,235	176,497	3,772,232
(34,673)	(15,022)	-	-	-	-	(139,416)	(8,356,594)
<u>(34,673)</u>	<u>(15,022)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,235</u>	<u>267,803</u>	<u>1,058,949</u>
(2,058)	(4,350)	2,436	15,428	29,248	(32,942)	294,748	(1,884,294)
6,286	101,949	(4,005)	(144)	(9,409)	23,269	113,509	7,989,201
<u>\$ 4,228</u>	<u>\$ 97,599</u>	<u>\$ (1,569)</u>	<u>\$ 15,284</u>	<u>\$ 19,839</u>	<u>\$ (9,673)</u>	<u>\$ 408,257</u>	<u>\$ 6,104,907</u>

City of Big Lake
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	Original and Final	Actual Amounts	
Revenues			
Property taxes	\$ 2,167,594	\$ 2,275,498	\$ 107,904
Franchise fees	388,740	442,833	54,093
Special assessments	1,000	2,343	1,343
Licenses and permits	310,175	499,653	189,478
Intergovernmental revenue			
Market value credit	-	285	285
PERA aid	3,106	3,106	-
Fire aid	91,000	96,867	5,867
Police aid	121,500	132,993	11,493
Federal grants	17,589	13,870	(3,719)
Other grants and aids	165,240	241,102	75,862
Total intergovernmental revenue	<u>398,435</u>	<u>488,223</u>	<u>89,788</u>
Charges for services			
General government	56,804	39,449	(17,355)
Public safety	40,730	59,379	18,649
Public works	157,600	156,576	(1,024)
Culture and recreation	1,450	1,905	455
Total charges for services	<u>256,584</u>	<u>257,309</u>	<u>725</u>
Fines and forfeitures	37,500	43,467	5,967
Miscellaneous revenues			
Investment income	25,000	42,698	17,698
Contributions and donations	4,700	68,405	63,705
Other	53,900	86,960	33,060
Total miscellaneous revenues	<u>83,600</u>	<u>198,063</u>	<u>114,463</u>
Total revenues	<u>3,643,628</u>	<u>4,207,389</u>	<u>563,761</u>
Expenditures			
General government			
Mayor and council	36,053	34,760	(1,293)
Administrative and finance	517,871	500,155	(17,716)
Other general government	155,022	139,276	(15,746)
Total general government	<u>708,946</u>	<u>674,191</u>	<u>(34,755)</u>
Public safety			
Police			
Current	1,526,531	1,551,061	24,530
Capital outlay	9,500	55,075	45,575
Total police	<u>1,536,031</u>	<u>1,606,136</u>	<u>70,105</u>

City of Big Lake
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Over (Under)</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
Expenditures (continued)			
Public safety (continued)			
Fire			
Current	\$ 308,833	\$ 266,041	\$ (42,792)
Capital outlay	-	6,748	6,748
Total fire	<u>308,833</u>	<u>272,789</u>	<u>(36,044)</u>
Other:			
Current	217,220	208,174	(9,046)
Total public safety	<u>2,062,084</u>	<u>2,087,099</u>	<u>25,015</u>
Public works			
Streets and highways			
Street maintenance and storm sewers	480,961	384,978	(95,983)
Street engineering	35,000	18,145	(16,855)
Street lighting	110,000	92,995	(17,005)
Total streets and highways	<u>625,961</u>	<u>496,118</u>	<u>(129,843)</u>
Sanitation			
Garbage and other refuse			
Collection and disposal	1,560	1,178	(382)
Total public works	<u>627,521</u>	<u>497,296</u>	<u>(130,225)</u>
Culture and recreation			
Libraries			
Libraries current expenditures	50,800	20,027	(30,773)
Parks and recreation			
Current expenditures	406,741	439,241	32,500
Total culture and recreation	<u>457,541</u>	<u>459,268</u>	<u>1,727</u>
Economic Development			
Current expenditures	141,245	141,373	128
Debt Service			
Principal	-	9,377	9,377
Interest and other charges	3,291	3,691	400
Total debt service	<u>3,291</u>	<u>13,068</u>	<u>9,777</u>
Total expenditures	<u>4,000,628</u>	<u>3,872,295</u>	<u>(128,333)</u>
Excess of revenues over (under) expenditures	<u>(357,000)</u>	<u>335,094</u>	<u>692,094</u>
Other Financing Sources (Uses)			
Proceeds from sale of capital asset	5,000	4,947	(53)
Proceeds from capital leases	-	26,213	26,213
Insurance recoveries	18,000	50,893	32,893
Transfers In	345,000	364,568	19,568
Transfers Out	(11,000)	(461,232)	(450,232)
Total other financing sources (uses)	<u>357,000</u>	<u>(14,611)</u>	<u>(371,611)</u>
Net change in fund balances	<u>\$ -</u>	<u>320,483</u>	<u>\$ 320,483</u>
Fund Balances			
Beginning of year		<u>2,703,689</u>	
End of year		<u>\$ 3,024,172</u>	

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**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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 13, 2017.

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 2011-001 and 2004-001.

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 13, 2017



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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 13, 2017.

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.

St. Cloud, Minnesota
April 13, 2017

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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 2011-001 – 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 2004-001 – Lack of Segregation of Accounting Duties

During the year ended December 31, 2016, 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, 2016



**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, 2016, 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 13, 2017 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 13, 2017

City of Big Lake
Significant Deficiencies

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended December 31, 2016, 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, 2016. 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 supplement(s) 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, 2016. 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
- Cash with fiscal agent
- Unearned revenue

**City of Big Lake
Required Communication**

CORRECTED AND UNCORRECTED MISSTATEMENTS (CONTINUED)

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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.

**City of Big Lake
Required Communication**

OTHER MATTERS (CONTINUED)

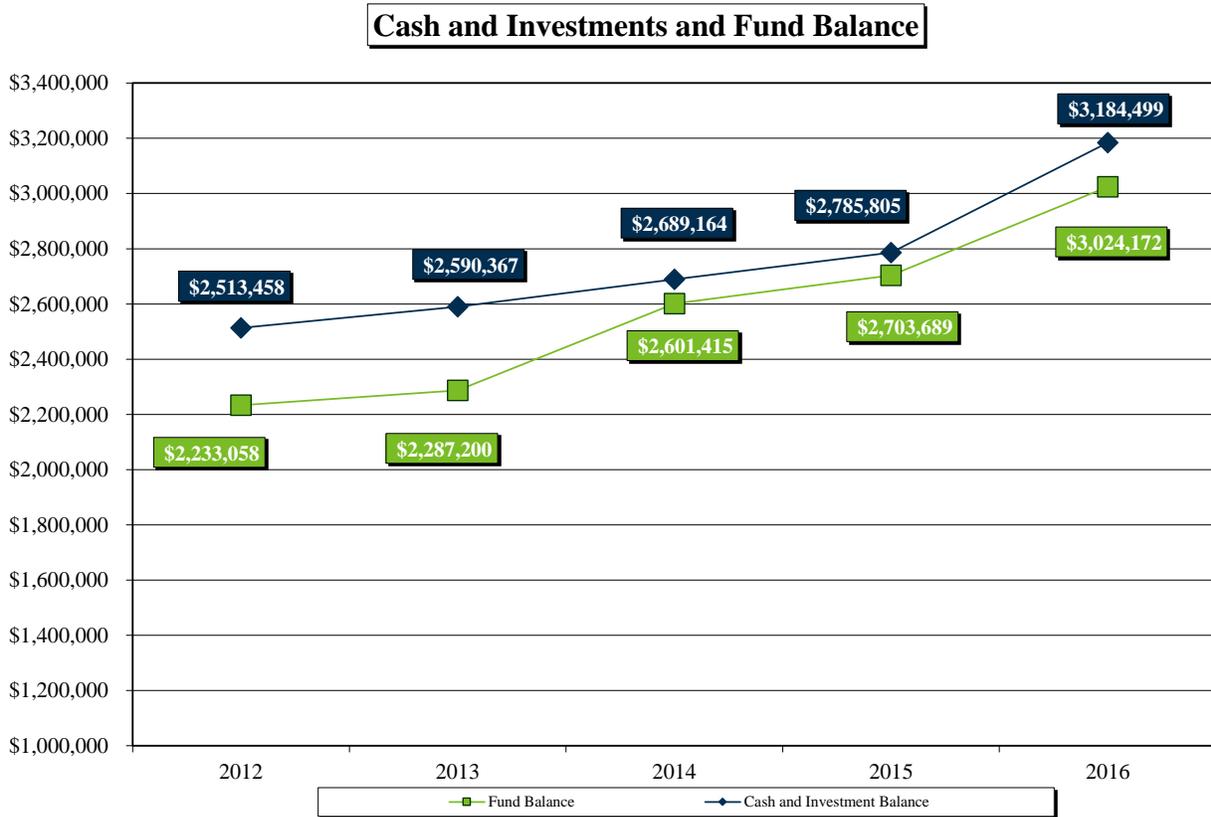
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United 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 \$671,041 from 2012 to 2016. The amount of cash at December 31, 2016, represents the highest cash balance shown of the five years presented. The fund balance increased \$791,114 from 2012 to 2016. At December 31, 2016, the General Fund balance consisted of \$82,185 nonspendable, \$145,579 assigned and \$2,796,408 unassigned. The total unassigned fund balance represented 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 2017 budgeted expenditures of \$4,286,269, the City's unrestricted General Fund balance was at 65% at December 31, 2016.



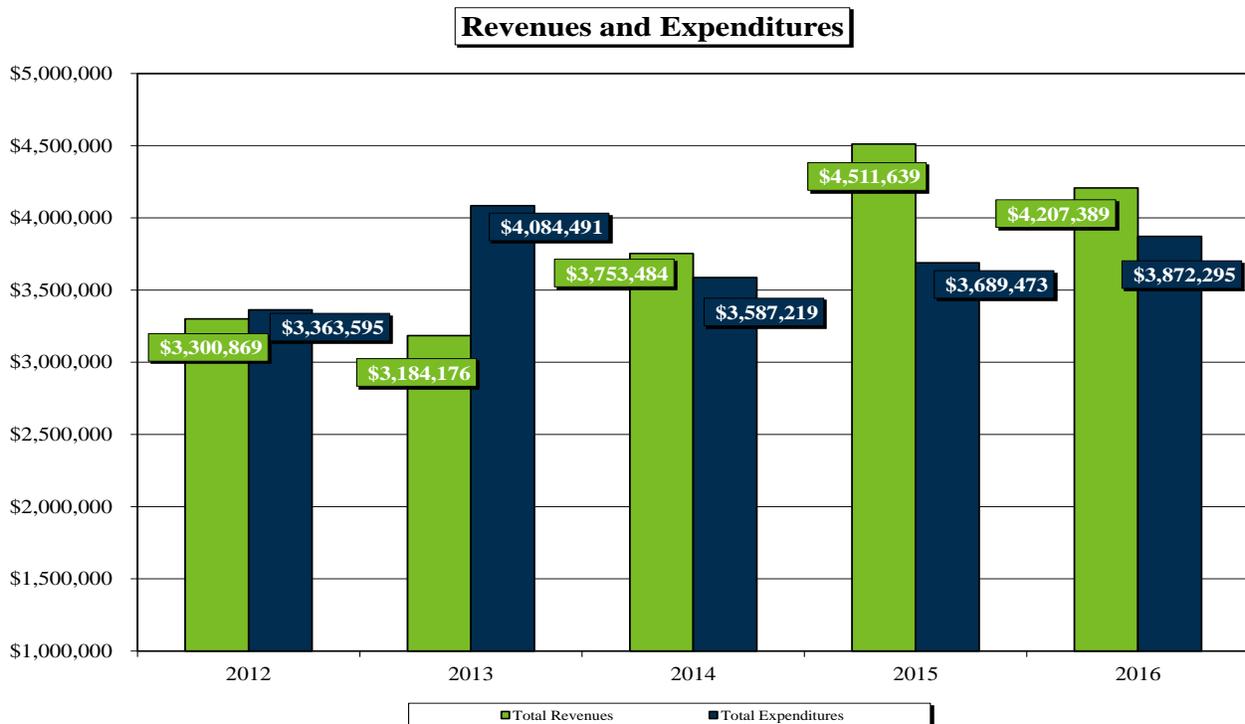
On the following pages, we will discuss the revenues and expenditures of the General Fund and the variations in the fund balance.

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 2015 of \$4,511,639 to a low of \$3,184,176 in 2013. Overall from 2012 to 2016, revenues have increased \$906,520. Similarly, expenditures have fluctuated over the five years presented. In 2016, expenditures were \$3,872,295, an increase from the prior year of \$182,822. Since 2012, expenditures have increased \$508,700. Transfers in for 2012 through 2014 were made to increase the General Fund balance, softening the excess of expenditures over revenues. Transfers out for 2015 and 2016 were made for capital related items.

	2012	2013	2014	2015	2016
Revenues	\$ 3,300,869	\$ 3,184,176	\$ 3,753,484	\$ 4,511,639	\$ 4,207,389
Expenditures	3,363,595	4,084,491	3,587,219	3,689,473	3,872,295
Proceeds from the sale of capital assets	5,800	13,270	943	1,625	4,947
Insurance recoveries	62,147	8,450	-	-	50,893
Proceeds from capital lease	-	-	-	-	26,213
Net transfers	250,519	932,737	147,007	(721,517)	(96,664)
Net change in fund balance	\$ 255,740	\$ 54,142	\$ 314,215	\$ 102,274	\$ 320,483



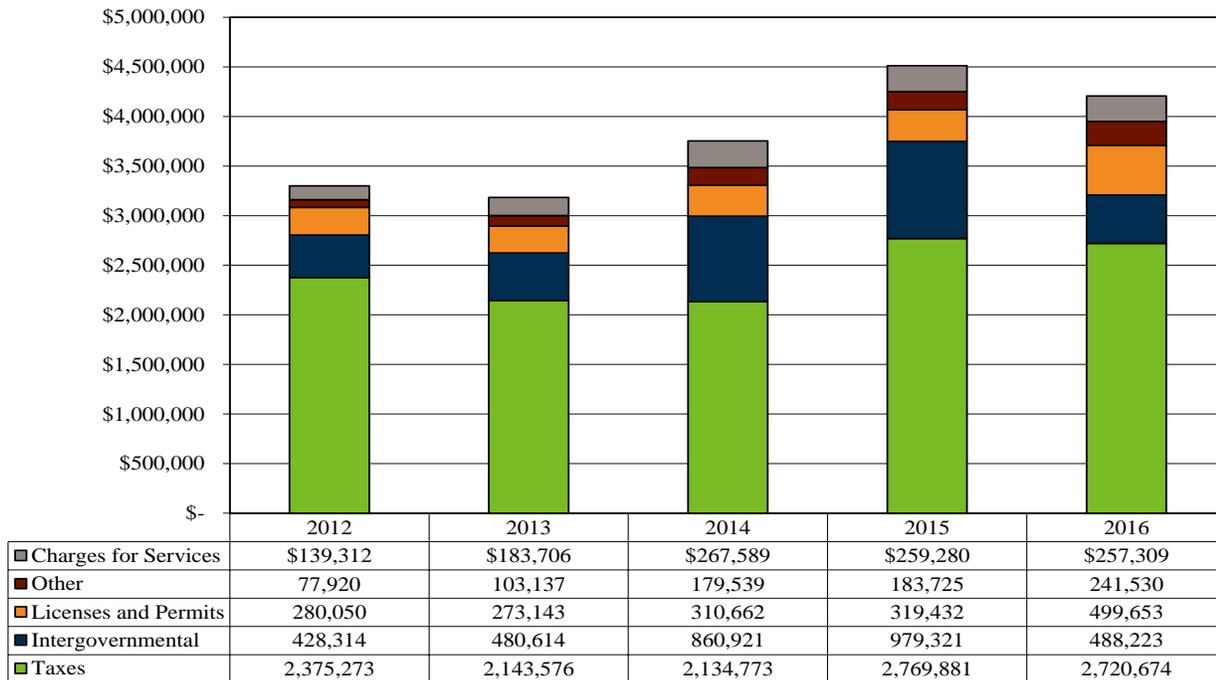
City of Big Lake Financial Analysis

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 64.7%, 11.6%, and 11.9% 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 decreased from 2015 to 2016 by \$304,250. Taxes decreased \$49,207 due to significant delinquency collections in 2015. Intergovernmental revenues decreased \$491,098 due to receipting the Local Government Aid directly into the project funds for the first time in 2016. Licenses and permits increased \$180,221 due to significant housing and commercial development during the year. Other sources of revenue increased \$57,805 due to an increase in outside donations and contributions. Changes for services had minor fluctuations.

General Fund Revenues

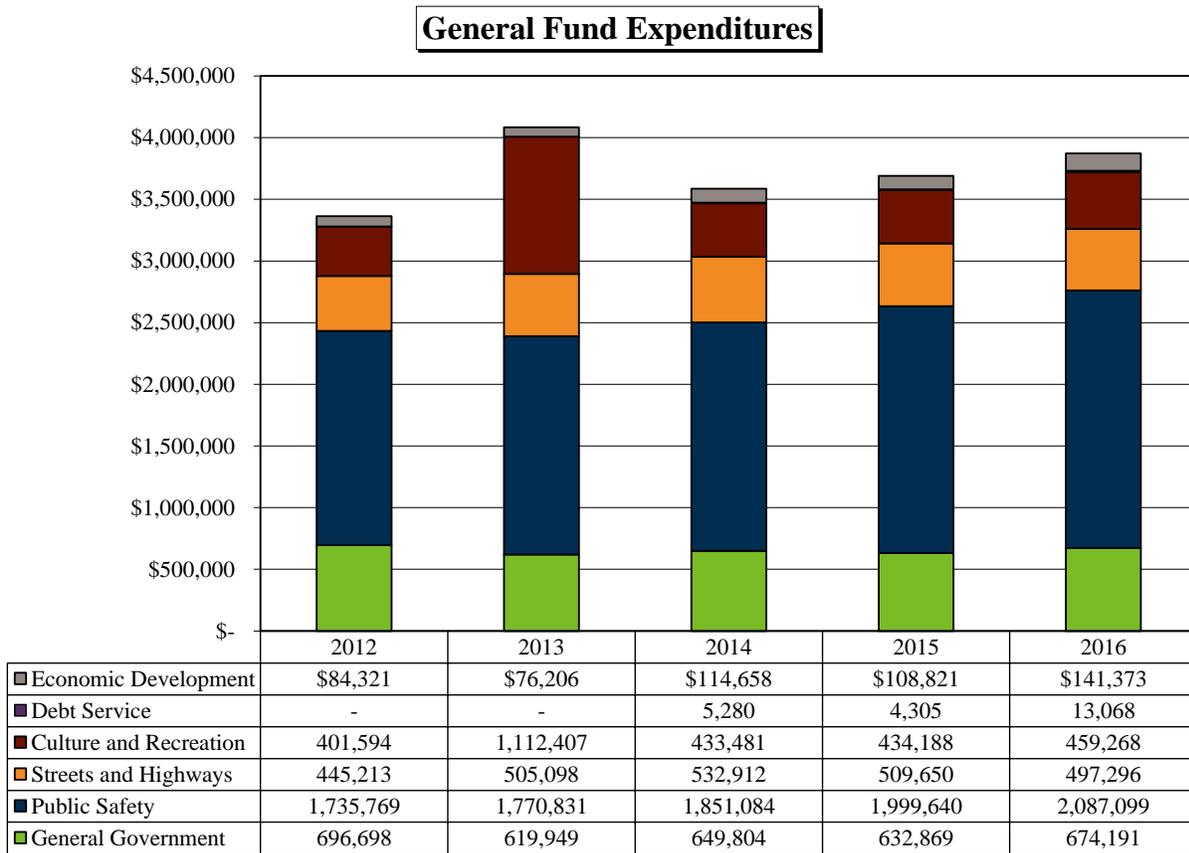


City of Big Lake Financial Analysis

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 53.9%. Overall, General Fund expenditures increased \$182,822 from 2015.

Public Safety increased \$87,459 due to salary and benefit increases, the K-9 unit, and increased operating expenditures. General government increased \$41,322 due to having a city administrator for a full year, additional election costs, and salary and benefit increases. All other functions were consistent with the prior year.



**City of Big Lake
Financial Analysis**

GENERAL FUND – BUDGETARY COMPARISON

	Original and Final Budget	Actual Amounts	Variance With Final Budget -
Revenues			
Taxes	\$ 2,557,334	\$ 2,720,674	\$ 163,340
Intergovernmental	398,435	488,223	89,788
Licenses and permits	310,175	499,653	189,478
Charges for services	256,584	257,309	725
Fines	37,500	43,467	5,967
Miscellaneous	83,600	198,063	114,463
Total receipts	3,643,628	4,207,389	563,761
Expenditures			
General government	708,946	674,191	(34,755)
Public safety	2,062,084	2,087,099	25,015
Streets and highways	627,521	497,296	(130,225)
Culture and recreation	457,541	459,268	1,727
Economic development	141,245	141,373	128
Debt service	3,291	13,068	9,777
Total disbursements	4,000,628	3,872,295	(128,333)
Excess of receipts over (under) disbursements	(357,000)	335,094	692,094
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	5,000	4,947	(53)
Proceeds from capital lease	-	26,213	26,213
Insurance recoveries	18,000	50,893	32,893
Net transfers	334,000	(96,664)	(430,664)
Total other financing sources (uses)	357,000	(14,611)	(371,611)
Net change in cash fund balances	\$ -	\$ 320,483	\$ 320,483

Overall, actual revenue was \$563,761, or 15.5%, over budget. Taxes were \$163,340 over budget due to budgeting conservatively for collections and not budgeting for cable franchise fees that were received. Intergovernmental revenues were \$89,788 over budget as a result of not budgeting for additional grants that were received throughout the year. Licenses and permits were over budget \$189,478 as a result of the increased permits that were not anticipated. Miscellaneous revenue sources were over budget \$114,463 due to better than expected investment returns and 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 \$128,333. Streets and highways was under budget \$130,225 due to fewer weather events needing salt, utility costs being less than anticipated, and transferring funds to the project fund to pay for a milling project instead of the seal coating that was budgeted in the General Fund. All other functions only had minor variances from their budgeted amounts.

City of Big Lake Financial Analysis

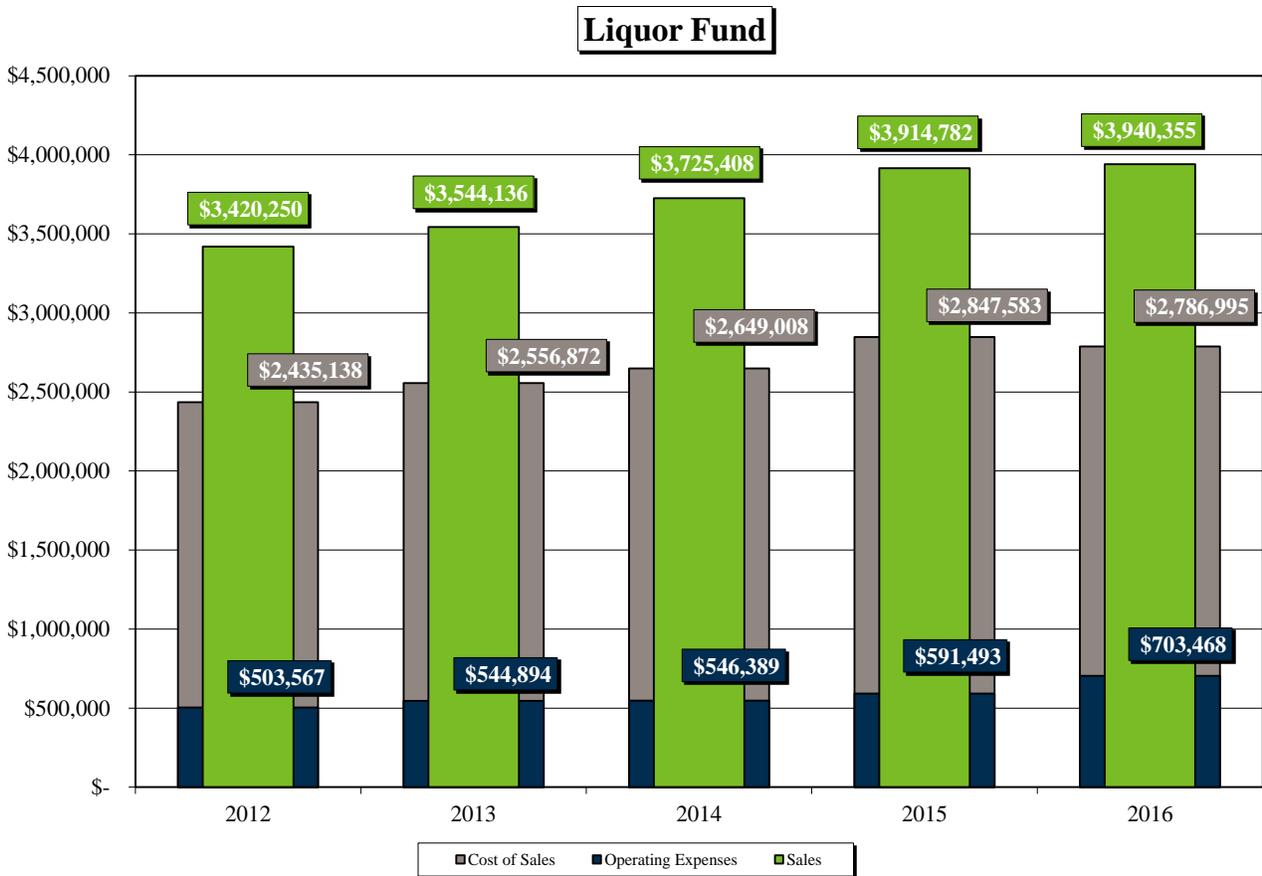
LIQUOR FUND

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.

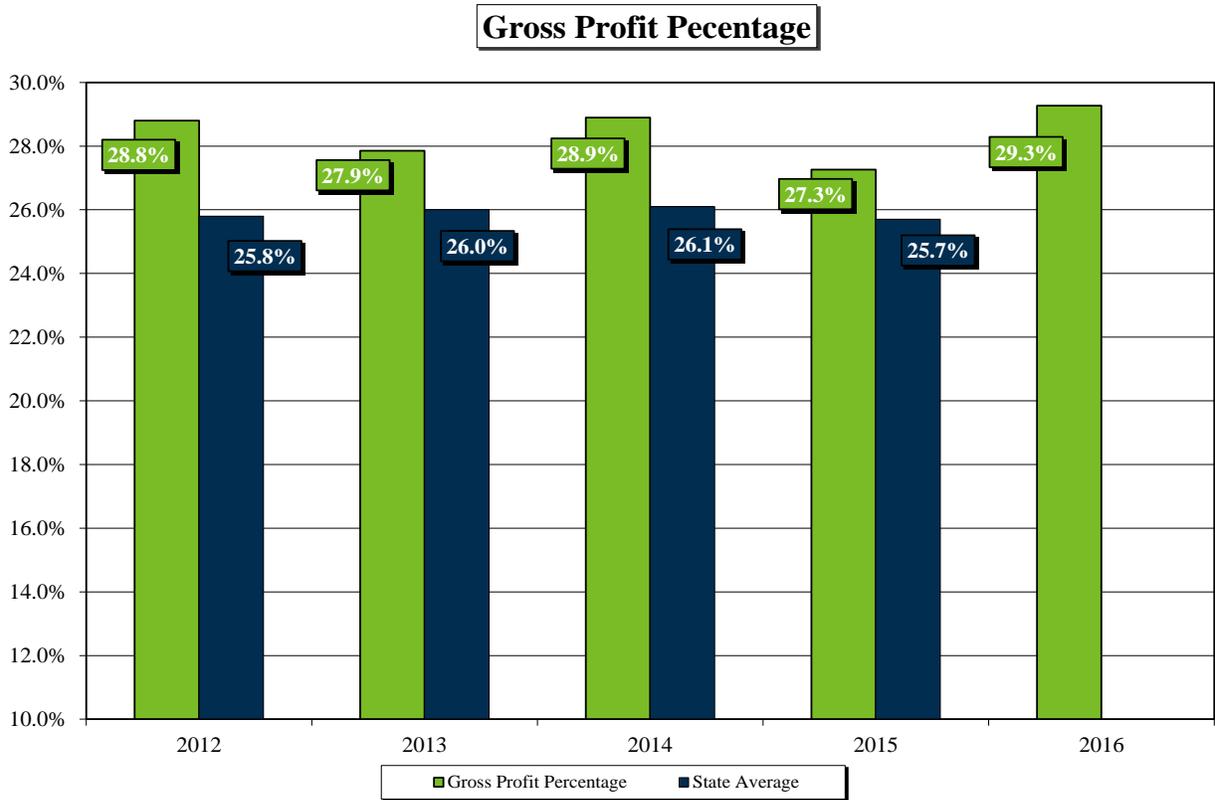
The liquor store sales have increased in each of the last five years. Total sales for 2016 reflected a 0.7% increase from 2015. During this same time period, cost of sales decreased 2.1%. The result was an increase in gross profit of 2.0%, to 29.3% in 2016 from 27.3% in 2015.

As of December 31, 2016, the Liquor Fund had an ending unrestricted cash and investment balance of \$631,003. Unrestricted net position at year-end was \$913,767 compared to \$801,909 in 2015. The total debt outstanding at December 31, 2016, in the Liquor Fund was \$792,730, including interest of \$76,930.



**City of Big Lake
Financial Analysis**

LIQUOR FUND (CONTINUED)



* State averages were taken from the 2012-2015 State of Minnesota "Analysis of Municipal Liquor Store Operations" for off-sale stores. Data for 2016 is not yet available.

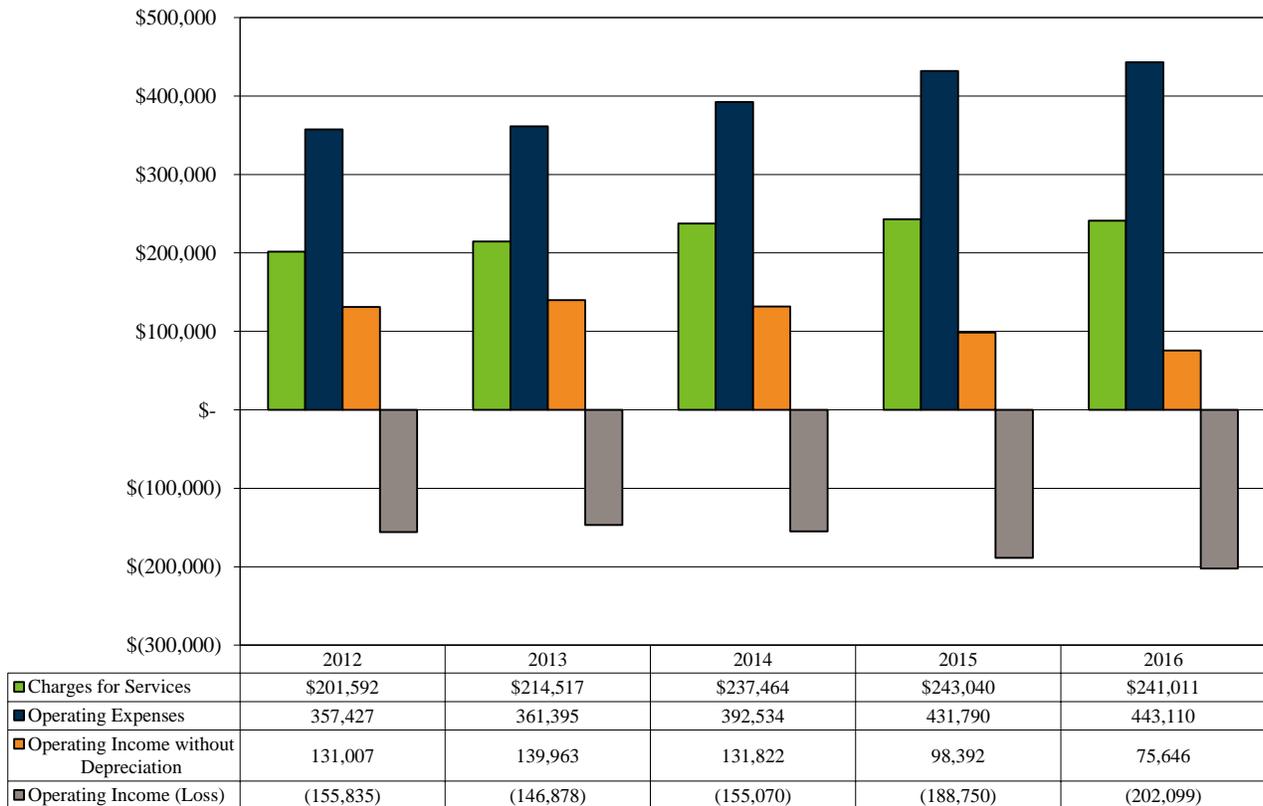
City of Big Lake Financial Analysis

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 decreased \$2,029 or 0.8% while expenses increased \$11,320 or 2.6%, compared to 2015. The increase in expenses was due to a change in the allocation of salaries and benefits. The net effect of the changes in revenues and expenses is a net loss of \$202,099. When depreciation is removed from the operating expenses, the Fund experienced operating income of \$75,646.

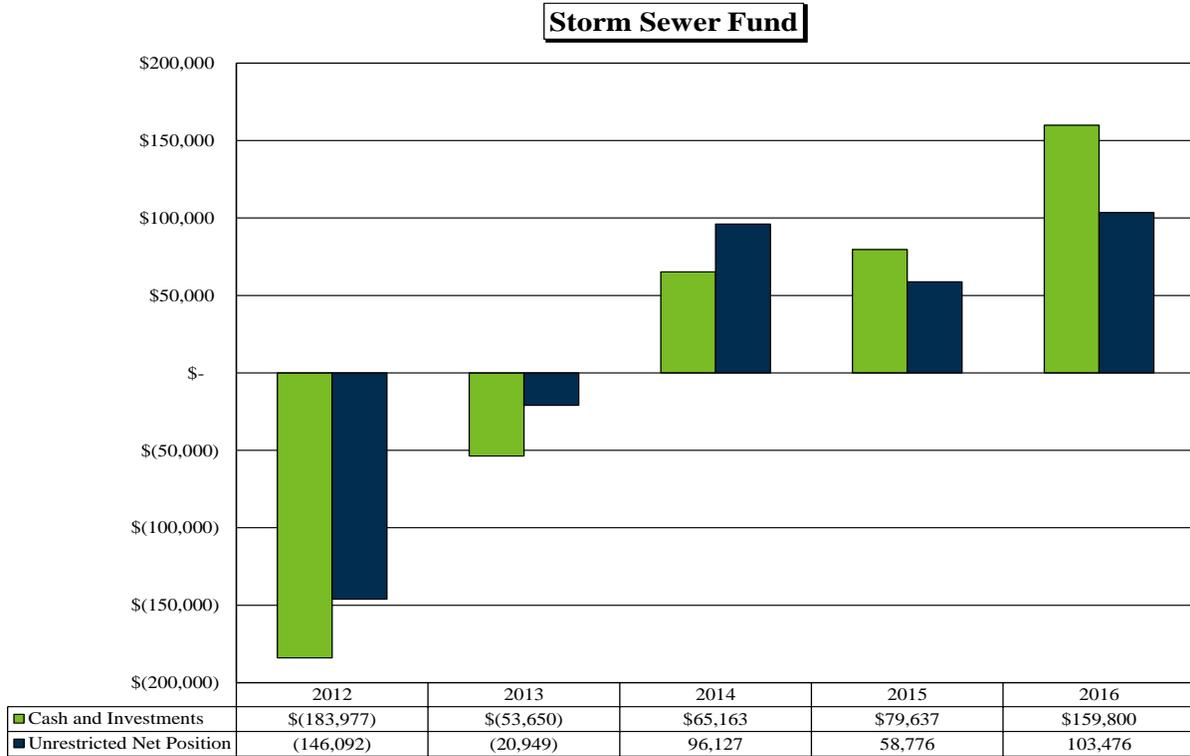
We recommend the City continue to evaluate storm water rates and monitor related expenditures to generate sufficient operating income in the future.

Storm Sewer Operations



**City of Big Lake
Financial Analysis**

STORM SEWER FUND (CONTINUED)



As of December 31, 2016, the Storm Water Fund had an ending net cash and investment balance (net of advances) of \$159,800. This is an increase of \$80,163 over 2015 levels. Total net position at year-end was \$3,890,046, while unrestricted net position at year-end was \$103,476. Unrestricted net position has increased \$249,568 since 2012.

City of Big Lake Financial Analysis

WATER AND SEWER FUNDS

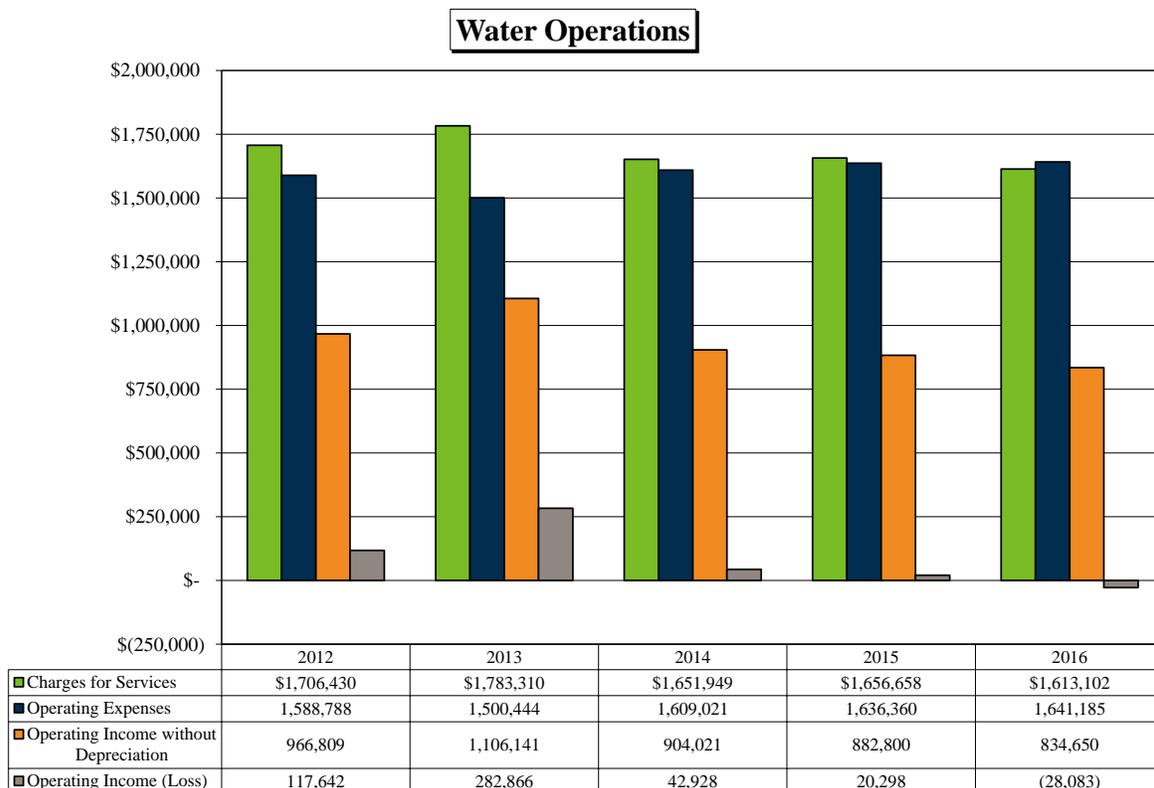
Water Fund

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 2012 through 2015, the Fund generated an operating income. Charges for services decreased \$43,556 from 2015 due to a decline in usage. Operating expenses increased by \$4,825, or 0.3%. The net effect of the decreased revenues and increased expenses is an operating loss of \$28,083. When depreciation is removed from the operating expenses, the Fund experienced operating income of \$834,650.

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.

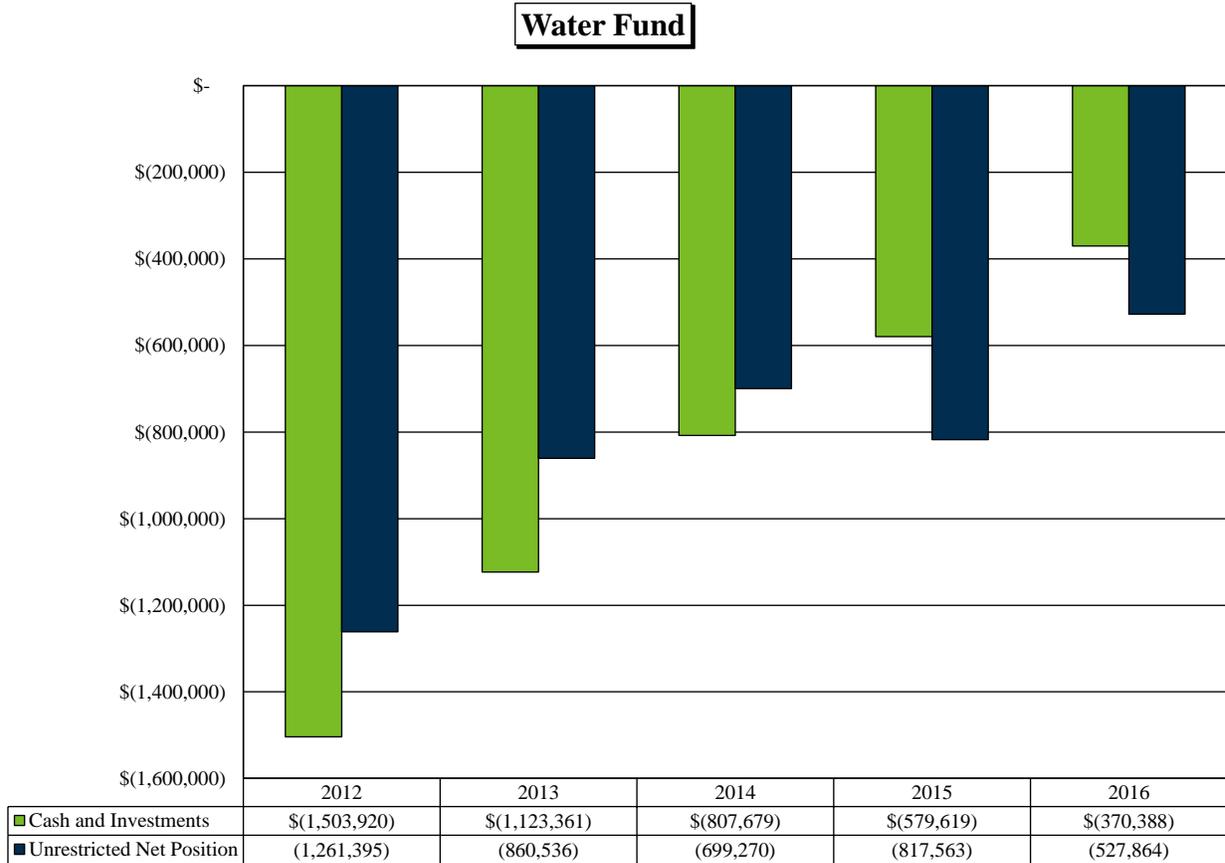
We recommend the City continue to evaluate water rates and monitor related expenditures to generate sufficient operating income in the future.



**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 \$1,133,532 since 2012. The cash deficits in the Water Fund are currently being advanced from the Sewer Fund. Current year interest and principal payments on the Water Fund debt were \$1,952,853. This amount includes the payment of refunded bonds from cash with fiscal agent of \$1,140,490. The total amount of debt outstanding in the Water Fund at December 31, 2016, was \$6,885,912, including principal and interest. Principal and interest due in 2017 totals \$862,740.

**City of Big Lake
Financial Analysis**

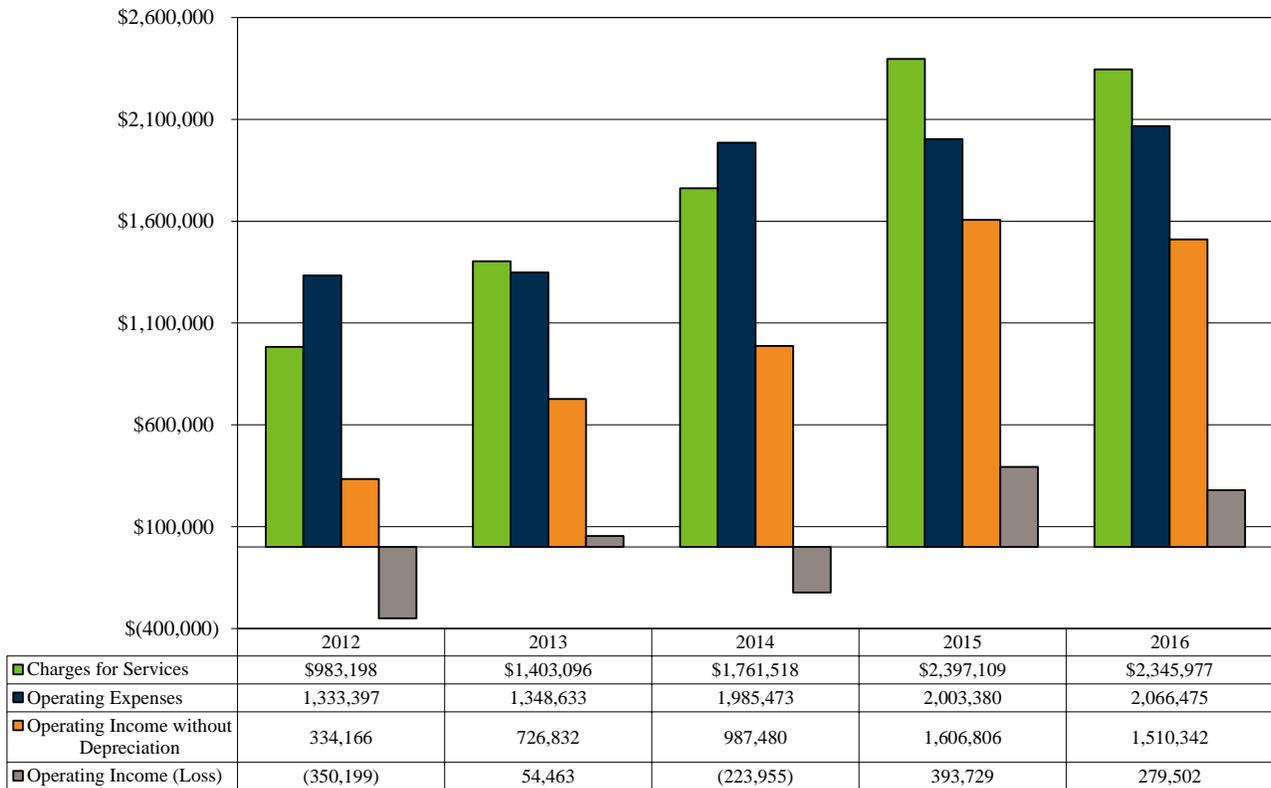
WATER AND SEWER FUNDS (CONTINUED)

Sewer Fund

In three of the past five years, the Sewer Fund has shown an operating income. In 2016, the Fund showed an operating income of \$279,502. This is a decrease in operating income of \$114,227 from 2015. The Fund experienced a decrease in charges for services of \$51,132 due to decreased usage while expenses increased \$63,095 due to increased supplies and professional services.

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.

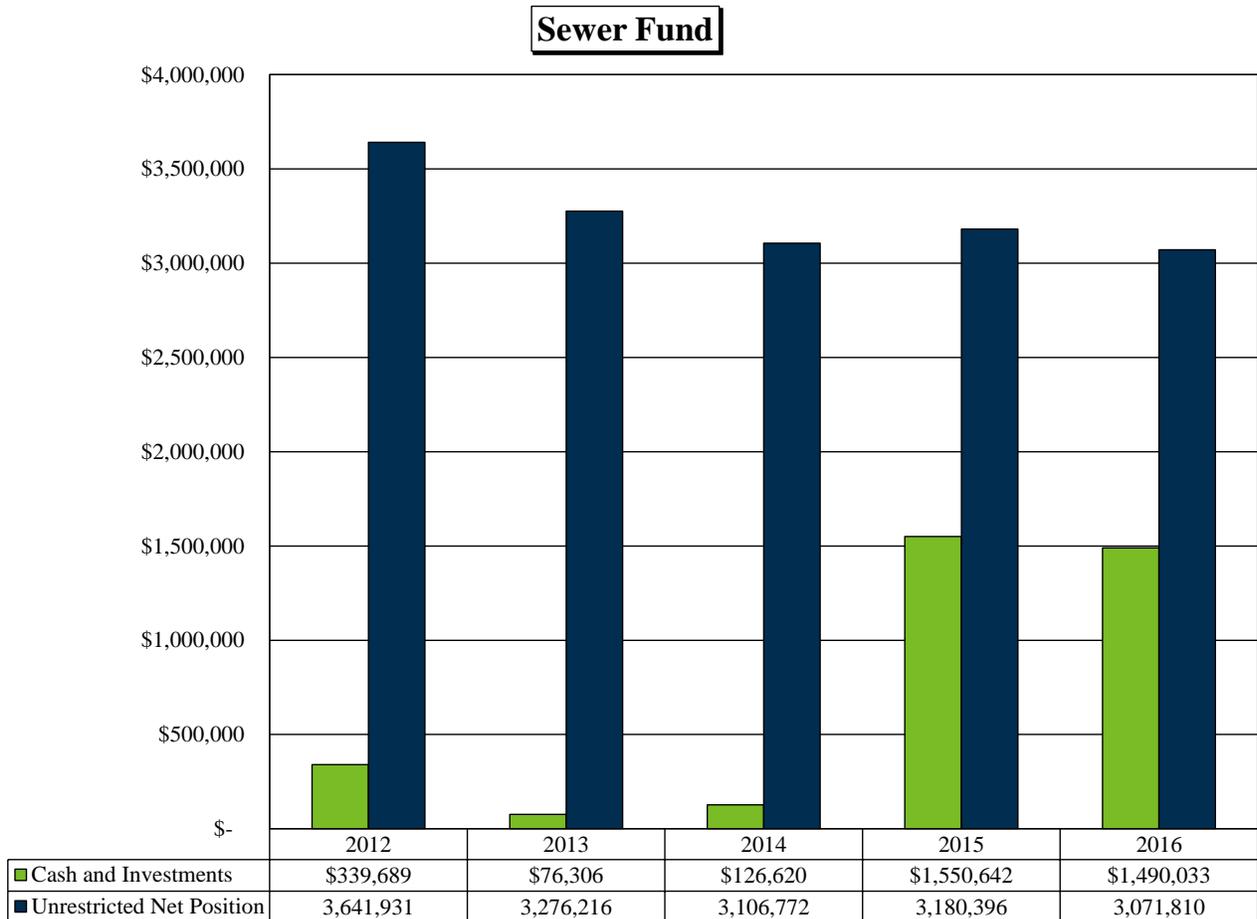
Sewer Operations



**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 decreased \$60,609, in 2016. 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 2016, the Fund used approximately \$1.7 million to cover cash deficits in other funds. The current year interest and principal payments on the Sewer Fund debt were \$5,222,425. This amount includes the payment of refunded debt from cash with fiscal agent of \$3,480,615. The total amount of debt outstanding at December 31, 2016, was \$20,245,162, including principal and interest. Principal and interest due in 2017 totals \$1,697,467 for the Sewer Fund.

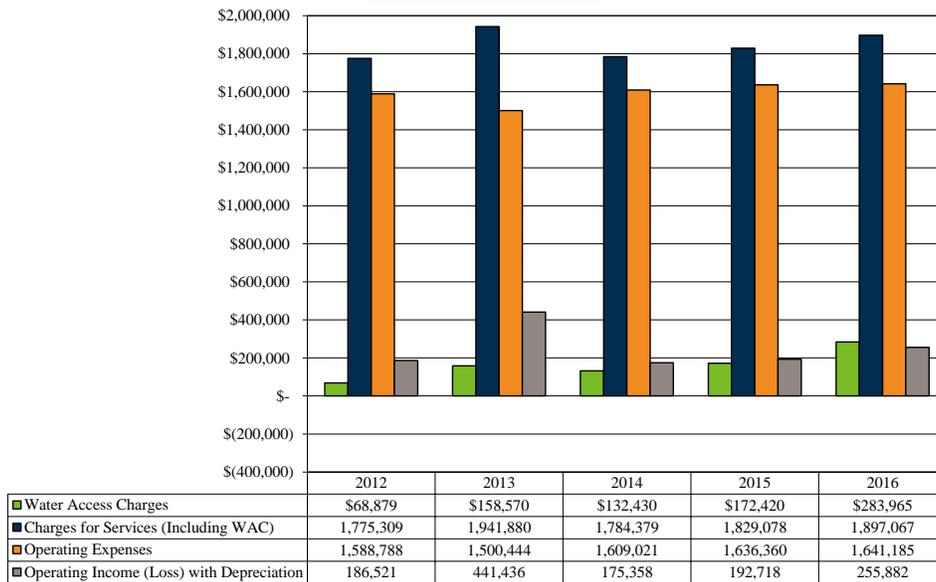
On the following page, the Water and Sewer Fund operations are shown to include revenue collected for access charges and trunk fees.

City of Big Lake Financial Analysis

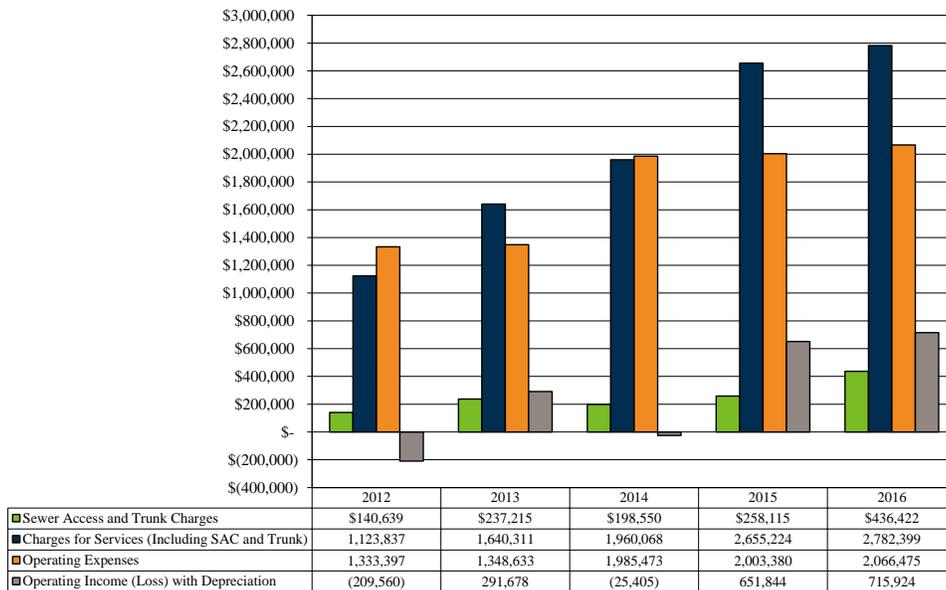
WATER AND SEWER FUNDS

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 2012 after rate increases, and continued through 2016. In 2013, 2015, and 2016, the Sewer Fund did collect sufficient access charges and trunk fees, in addition to charges for services, to finance construction and depreciation. In 2012 and 2014, sufficient revenues were not collected to cover expenses.

Water Operations

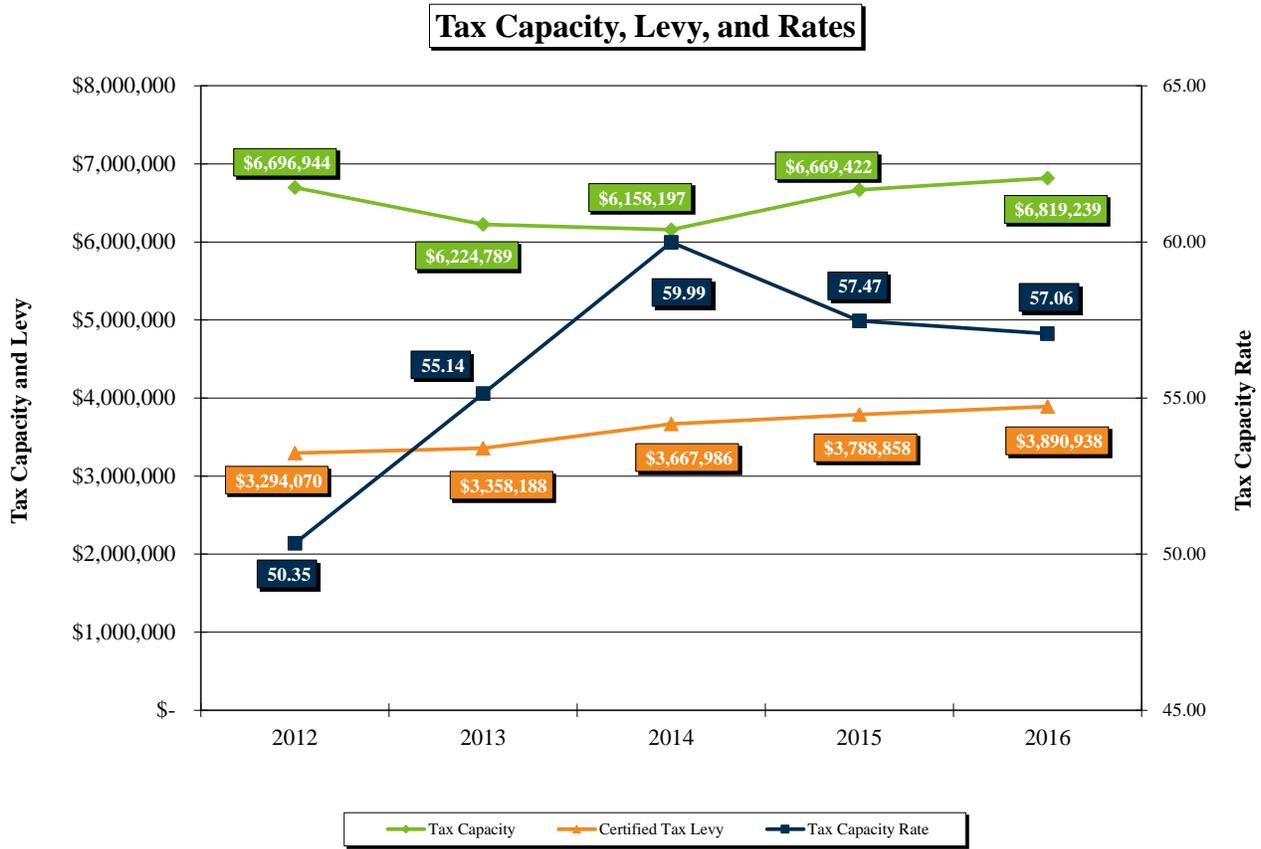


Sewer Operations



City of Big Lake Financial Analysis

TAX CAPACITY, LEVY, AND RATES



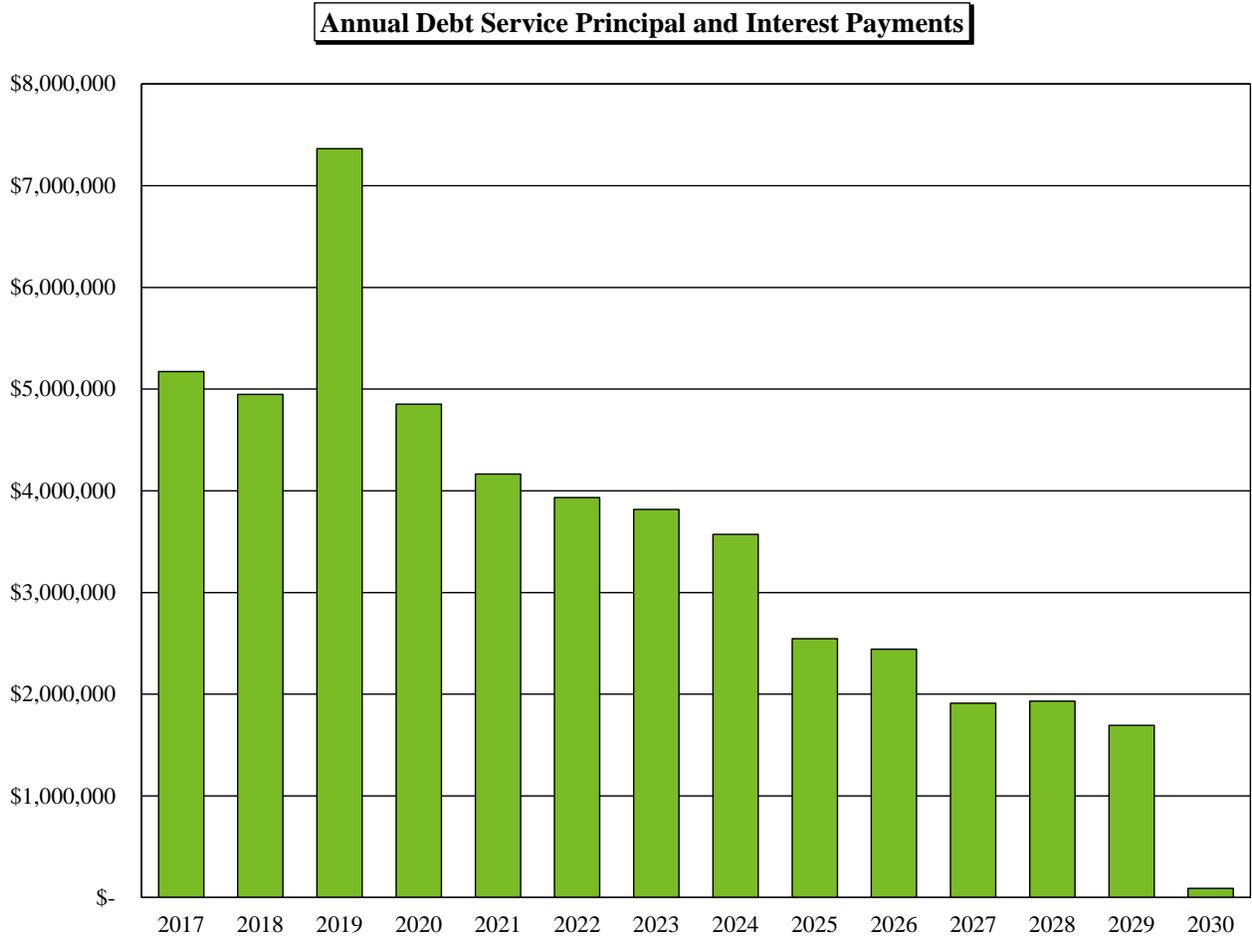
The chart above graphs the tax capacity (not including Tax Increment Financing (TIF) Districts), certified tax levy and tax capacity rate for 2012 through 2016. The tax capacity is based on total tax capacity, prior to adjustments for captured TIF and fiscal disparities. The certified tax levy amount is also prior to fiscal disparity adjustments.

Comparing 2012 through 2016, the City's tax capacity has increased from \$6,696,944 to \$6,819,239 or \$122,295 in five years. This is a 1.8% increase in tax capacity. The City's certified levy over this same time frame has increased \$596,868, or 18.1%. As a result of the City's certified tax levy staying stable and a slight increase in the tax capacity for 2016, the City's tax capacity rate has decreased from 57.47% in 2015 to 57.06% in 2016. 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, 2016, are \$48,440,541, including interest totaling \$5,811,541.



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 updates include:

- **Accounting Standard Update –GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** –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 their OPEB liabilities.

The following are extensive summaries of each 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.

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.

**City of Big Lake
Emerging Issues**

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

- 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.