

CITY OF PAYNESVILLE, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2015

**CITY OF PAYNESVILLE, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF PAYNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2015**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeffrey Thompson	Mayor	December 31, 2016
Donavan Mayer	Council Member	December 31, 2016
Kay McDaniel	Council Member	December 31, 2016
Jean Soine	Council Member	December 31, 2018
Neil Herzberg	Council Member	December 31, 2018

<u>Administration</u>	<u>Position</u>	<u>Term Expires</u>
Renee Eckerly	City Administrator	Appointed

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Paynesville
Paynesville, 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 Paynesville (City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' 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 auditors' 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.

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 Paynesville as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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Emphasis of Matters

During fiscal year ended December 31, 2015, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the City reported a restatement for the change in accounting principle (see Note 10). As discussed in Note 10 to the financial statements, the City of Paynesville restated the net position of the Sewer Fund and Business-Type Activities for capital assets that had been previously disposed of but not removed from the city's capital asset records for the year ended December 31, 2014. Our auditors' opinion was not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of funding progress for postemployment benefit plan, the schedule of the City's proportionate share of the net pension liability, schedule of the City's proportionate share of the firefighters relief association net pension asset, the schedule of City contributions, and the notes to the required supplementary information, as listed on 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paynesville's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Mayor and
Members of the City Council
City of Paynesville

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2016, on our consideration of the City of Paynesville'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 result 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 Paynesville's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Alexandria, Minnesota
April 11, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

This section of the City of Paynesville's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2015. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year, 2015, and the prior year, 2014, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2015 include the following:

- The City's total change in net position was an increase of \$248,495 (excluding the effect of the net position restatement) mainly due to the success of the City's utility operations.
- The assets of the City's general fund exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$1,628,151. Of this amount \$1,471,663 is classified as unassigned and may be used to meet the City's ongoing obligations of citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,214,105, a decrease of \$204,734 from the previous year due to budgeted capital outlay expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

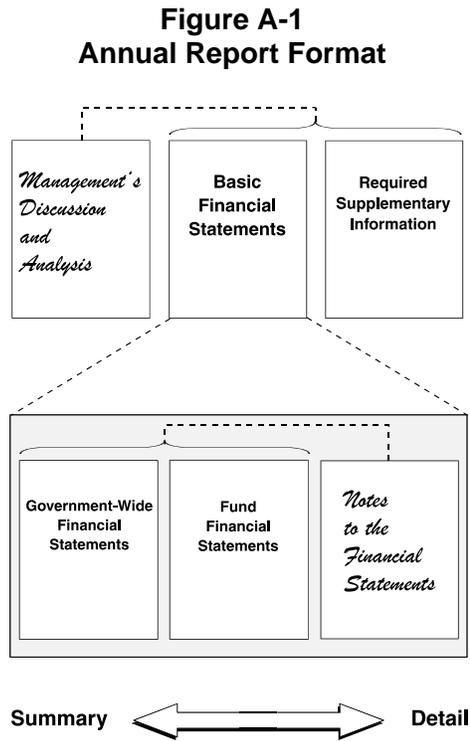
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are City-wide financial statements which provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the City, reporting the City's operations in more detail than the City-wide statements.
 - The governmental funds statements tell how basic services such as general government, public safety, and public works were financed in the short-term as well as what remains for future spending.
 - Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others to whom the resources belong.
 - The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-Wide and Fund Financial Statements				
Type of Statements	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City's government (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary.	The activities of the City that operate similar to private businesses: water, sewer and liquor.	Instances in which the County is the trustee or agent for someone else's resources.
Required Financial Statements	Statement of net position.	Balance sheet.	Statement of net position.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balances.	Statement of revenues, expenses and changes in net position, and statement of cash flows.	Statement of changes in fiduciary net position.
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of Asset and Deferred Outflow of Resources/ Liability and Deferred Inflow of Resources Information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term.	Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter, no capital assets included.	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term.	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short-term and long-term. Agency funds do not current contain capital assets, although they can.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during the year, regardless of when cash is received or paid.

City-Wide Statements

The City-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

City-Wide Statements (Continued)

The two City-wide statements report the City's net position and how it has changed. Net position – the difference between the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources – is one way to measure the City's financial health or position.

In the City-wide financial statements the City's activities are shown in two categories:

- Governmental activities – The City's basic services are included here. Property taxes, special assessments and state aids finance most of these activities.
- Business-type activities – The City's enterprise fund operations (water, sewer, and municipal liquor) are included here. Charges for services and sales finance most of these activities.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of City buildings, infrastructure and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds – focusing on its most significant or "major" funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The City has three kinds of funds:

- Governmental Funds – The City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for future operations. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the city-wide statements, we provide additional information after the governmental funds statements that explain the relationship (or differences) between them.
- Proprietary Funds – The City reports three 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, and municipal liquor operations. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.
- Fiduciary Funds – The City is the fiscal agent, or fiduciary, for assets that belong to the State of Minnesota Deputy Registrar. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the City-wide financial statements because the City cannot use these assets to finance its operations.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's overall net position was \$31,055,092 on December 31, 2015. There was a decrease of \$532,679 over the restated prior year net position of \$30,806,597, primarily due to the recognition of the City's proportionate share of the net pension liability as a result of the new pension standard.

**Table A-1
The City's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 6,135,871	\$ 6,280,158	\$ 5,649,297	\$ 5,447,386	\$ 11,785,168	\$ 11,727,544
Capital Assets	13,059,377	12,942,095	15,751,298	16,379,971	28,810,675	29,322,066
Total Assets	<u>19,195,248</u>	<u>19,222,253</u>	<u>21,400,595</u>	<u>21,827,357</u>	<u>40,595,843</u>	<u>41,049,610</u>
Deferred Outflows of Resources	178,152	-	33,884	-	212,036	-
Long-Term Liabilities	1,971,424	2,522,654	5,580,845	5,572,142	7,552,269	8,094,796
Other Liabilities	1,402,976	735,055	719,391	631,988	2,122,367	1,367,043
Total Liabilities	<u>3,374,400</u>	<u>3,257,709</u>	<u>6,300,236</u>	<u>6,204,130</u>	<u>9,674,636</u>	<u>9,461,839</u>
Deferred Inflows of Resources	66,989	-	11,162	-	78,151	-
Net Position						
Net Investment in Capital Assets	10,546,126	9,893,737	9,844,453	10,484,829	20,390,579	20,378,566
Restricted	2,272,933	2,379,026	-	-	2,272,933	2,379,026
Unrestricted	3,112,952	3,691,781	5,278,628	5,138,398	8,391,580	8,830,179
Total Net Position	<u>\$ 15,932,011</u>	<u>\$ 15,964,544</u>	<u>\$ 15,123,081</u>	<u>\$ 15,623,227</u>	<u>\$ 31,055,092</u>	<u>\$ 31,587,771</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$5,277,414 for the year ended December 31, 2015. The City-wide cost of all activities this year was \$5,028,919. This results in an increase in net position before the effect of the restatement of beginning net position.

**Table A-2
The City's Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenue:						
Program Revenues:						
Charges for Services	\$ 464,034	\$ 497,953	\$ 2,702,984	\$ 2,625,150	\$ 3,167,018	\$ 3,123,103
Operating Grants and Contributions	146,134	137,893	500	9,116	146,634	147,009
Capital Grants and Contributions	248,844	508,231	10,000	-	258,844	508,231
General Revenues:						
Property Taxes	581,968	566,914	-	-	581,968	566,914
Franchise Fees	31,809	32,677	-	-	31,809	32,677
Tax Increments	60,079	38,246	-	-	60,079	38,246
Intergovernmental	724,079	718,826	-	-	724,079	718,826
Other Revenue	139,591	83,488	29	36,556	139,620	120,044
Investment Earnings (Losses)	79,153	67,485	88,210	88,334	167,363	155,819
Total Revenues	<u>2,475,691</u>	<u>2,651,713</u>	<u>2,801,723</u>	<u>2,759,156</u>	<u>5,277,414</u>	<u>5,410,869</u>
Expenses:						
General Government	431,450	421,187	-	-	431,450	421,187
Public Safety	691,522	695,919	-	-	691,522	695,919
Public Works	661,522	578,894	-	-	661,522	578,894
Culture and Recreation	290,902	219,540	-	-	290,902	219,540
Economic Development	227,723	88,745	-	-	227,723	88,745
Interest on Long-Term Debt	86,859	110,809	-	-	86,859	110,809
Airport	135,178	165,522	-	-	135,178	165,522
Water	-	-	339,131	330,972	339,131	330,972
Sewer	-	-	847,372	630,269	847,372	630,269
Municipal Liquor	-	-	1,317,260	1,233,786	1,317,260	1,233,786
Total Expenses	<u>2,525,156</u>	<u>2,280,616</u>	<u>2,503,763</u>	<u>2,195,027</u>	<u>5,028,919</u>	<u>4,475,643</u>
Change in Net Position before Transfers	(49,465)	371,097	297,960	564,129	248,495	935,226
Transfers	394,819	(1,296,915)	(394,819)	1,296,915	-	-
Change in Net Position	<u>345,354</u>	<u>(925,818)</u>	<u>(96,859)</u>	<u>1,861,044</u>	<u>248,495</u>	<u>935,226</u>
Net Position, Beginning of Year	15,964,544	16,890,362	15,623,227	13,762,183	31,587,771	30,652,545
Restatement	(377,887)	-	(403,287)	-	(781,174)	-
Net Position, Beginning of Year, as Restated	<u>15,586,657</u>	<u>16,890,362</u>	<u>15,219,940</u>	<u>13,762,183</u>	<u>30,806,597</u>	<u>30,652,545</u>
Net Position, End of Year	<u>\$ 15,932,011</u>	<u>\$ 15,964,544</u>	<u>\$ 15,123,081</u>	<u>\$ 15,623,227</u>	<u>\$ 31,055,092</u>	<u>\$ 31,587,771</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

	Cost of Services Analysis			Net Revenue from (Cost of)		Percentage Change
	Total Cost of Services		Percentage Change	Services		
	2015	2014		2015	2014	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 431,450	\$ 421,187	2.4 %	\$ (350,877)	\$ (330,008)	(6.3)%
Public Safety	691,522	695,919	(0.6)	(392,131)	(238,986)	(64.1)
Public Works	661,522	578,894	14.3	(557,923)	(329,795)	(69.2)
Culture and Recreation	290,902	219,540	32.5	(177,385)	(127,109)	(39.6)
Economic and Community Development	227,723	88,745	156.6	(126,646)	6,611	(2015.7)
Airport	135,178	165,522	(18.3)	25,677	(6,443)	498.5
Interest	86,859	110,809	(21.6)	(86,859)	(110,809)	21.6
Total	<u>\$ 2,525,156</u>	<u>\$ 2,280,616</u>	10.7	<u>\$ (1,666,144)</u>	<u>\$ (1,136,539)</u>	(46.6)
BUSINESS-TYPE ACTIVITIES						
Water	\$ 339,131	\$ 330,972	2.5 %	\$ 220,488	\$ 202,592	8.8 %
Sewer	847,372	630,269	34.4	(81,067)	188,504	(143.0)
Municipal Liquor	1,317,260	1,233,786	6.8	70,300	48,143	46.0
Total	<u>\$ 2,503,763</u>	<u>\$ 2,195,027</u>	14.1	<u>\$ 209,721</u>	<u>\$ 439,239</u>	(52.3)

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

The financial performance of the City as a whole is reflected in its governmental funds as well. As the City completed the year, its governmental funds reported a combined fund balance of \$4,214,105.

The General Fund's fund balance increased \$47,077 from the prior year. This is primarily due to open staff positions during the year that were not filled leaving a decrease in expenditures.

The Economic Development Revolving Loan Fund's fund balance increased \$49,219 as a result of the receipt of loan payments exceeding current year loans issued.

The Economic Development Authority Fund's fund balance increased \$27,138 from the prior year. This is due to grant dollars and reimbursements received exceeding current year expenditures.

The Debt Service Fund's fund balance decreased \$11,531 from operations as a result of the current year bond obligations exceeding tax revenues collected.

The Capital Project Fund's fund balance decreased \$322,252 as a result of planned capital expenditures.

The Water Enterprise Fund's net position increased \$81,816 from the prior year. This increase is due primarily to an increase in utility rates.

The Sewer Enterprise Fund's net position decreased \$211,629 due to a decrease in gallons processed and billed.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL (CONTINUED)

The Municipal Liquor Enterprise Fund's net position increased \$32,954. This increase is due primarily to increases in the City's gross profit margin and inventory levels for the store.

Revenues for the City's governmental funds were \$2,517,544, while total expenditures were \$3,052,693.

Governmental Funds				
2015				
	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 1,717,785	\$ 1,506,334	\$ (164,374)	\$ 47,077
Economic Development Revolving Loan	124,761	72,231	(3,311)	49,219
Economic Development Authority	26,070	31,142	32,210	27,138
Capital Project Fund	152,873	740,007	264,882	(322,252)
Debt Service Fund	406,670	622,951	204,750	(11,531)
Nonmajor Governmental Funds	89,385	80,028	(3,742)	5,615
Totals	\$ 2,517,544	\$ 3,052,693	\$ 330,415	\$ (204,734)
2014				
	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 1,683,115	\$ 1,545,421	\$ (177,126)	\$ (39,432)
Economic Development Revolving Loan	211,693	49,043	-	162,650
Economic Development Authority	40,163	28,056	54,447	66,554
Capital Project Fund	173,185	1,300,665	1,357,205	229,725
Debt Service Fund	375,845	562,046	195,250	9,049
Nonmajor Governmental Funds	53,876	49,683	(10,099)	(5,906)
Totals	\$ 2,537,877	\$ 3,534,914	\$ 1,419,677	\$ 422,640

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GENERAL FUND

The General Fund includes the primary operations of the City in providing services to its residents. Fund balance in the General Fund increased by \$47,077 in 2015. The increase is due primarily to expenditure savings as a result of vacant positions.

General Fund Budgetary Highlights

- Actual revenues were \$30,363 more than budget due primarily to the City receiving more charges for services for the Airport and additional intergovernmental revenues.
- Actual expenditures were \$11,807 less than budget due to savings recognized in the public safety department and in snow removal expenditures.

CAPITAL ASSETS

By the end of 2015, the City had invested approximately \$44,000,000 in a broad range of capital assets, including: buildings, improvements, equipment, and infrastructure. More detailed information about capital assets can be found in the Note 3.A.3 to the financial statements. Total depreciation expense for the year was \$908,962 (including the enterprise funds).

The City's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 891,603	\$ 969,977	\$ 848,462	\$ 848,462	\$ 1,740,065	\$ 1,818,439
Construction in Progress	1,335,761	1,592,738	3,363,684	3,329,114	4,699,445	4,921,852
Buildings and Improvements	1,399,210	1,314,696	5,793,398	6,075,901	7,192,608	7,390,597
Underground Mains	-	-	5,086,800	5,221,707	5,086,800	5,221,707
Wastewater Treatment Facility	-	-	515,484	732,489	515,484	732,489
Infrastructure - Streets	7,387,449	7,264,973	-	-	7,387,449	7,264,973
Infrastructure - Trails	1,058,767	958,996	-	-	1,058,767	958,996
Vehicles	285,391	237,566	-	-	285,391	237,566
Furniture and Equipment	106,542	57,288	6,926	8,631	113,468	65,919
Machinery and Equipment	594,654	545,861	136,544	163,667	731,198	709,528
Total Capital Assets	\$ 13,059,377	\$ 12,942,095	\$ 15,751,298	\$ 16,379,971	\$ 28,810,675	\$ 29,322,066

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

LONG-TERM LIABILITIES

At year-end, the City had \$8,451,845 in long-term liabilities outstanding. See Note 3.C for additional details on long-term liabilities.

- Overall long-term liabilities decreased as a result of principal payments made on the outstanding bonds and notes. The City did issue additional PFA notes during the year as described in the note referred to above.

The City's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
G.O. Bonds	\$ 2,545,000	\$ 3,090,000	\$ -	\$ -	\$ 2,545,000	\$ 3,090,000
PFA G.O. Revenue Notes	-	-	5,906,845	5,895,142	5,906,845	5,895,142
Total Outstanding Debt	<u>\$ 2,545,000</u>	<u>\$ 3,090,000</u>	<u>\$ 5,906,845</u>	<u>\$ 5,895,142</u>	<u>\$ 8,451,845</u>	<u>\$ 8,985,142</u>

FACTORS BEARING ON THE CITY'S FUTURE

The Highway 23 bypass project, which opened on July 20, 2012, continues to give the City new challenges and opportunities. The City has continued to develop Opportunity Park and sold an additional 6,115 square feet and has a letter of intent for an additional 97,744 square feet. The City is close to completion on construction to improve the Wastewater Treatment Facility. The City has begun construction to improve the Water Treatment Facility for a cost of \$3.6 million. The City is also working to developing a plan for the 2016 street project.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or would like to request additional financial information, contact the City of Paynesville's City Administrator at 221 Washburne Avenue, Paynesville, Minnesota 56362.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 4,269,728	\$ 5,058,281	\$ 9,328,009
Property Taxes Receivable	26,162	-	26,162
Accounts Receivable	24,837	208,411	233,248
Interest Receivable	33,489	-	33,489
Due from Other Governments	55,879	121,351	177,230
Special Assessments Receivable			
Delinquent	5,393	931	6,324
Deferred	842,884	26,824	869,708
Inventory	-	175,930	175,930
Prepaid Items	39,138	27,569	66,707
Loans Receivable, Net of Allowance	763,895	-	763,895
Internal Balance	(30,000)	30,000	-
Net Pension Asset	104,466	-	104,466
Non-Depreciable Capital Assets			
Land	891,603	848,462	1,740,065
Construction in Progress	1,335,761	3,363,684	4,699,445
Depreciable Capital Assets (Net of Accumulated Depreciation)			
Buildings and Improvements	1,399,210	5,793,398	7,192,608
Furniture and Equipment	106,542	6,926	113,468
Machinery, Furniture and Equipment	594,654	136,544	731,198
Infrastructure - Streets	7,387,449	-	7,387,449
Infrastructure - Trails	1,058,767	-	1,058,767
Vehicles	285,391	-	285,391
Wastewater Treatment Facility	-	515,484	515,484
Underground Mains	-	5,086,800	5,086,800
Total Assets	19,195,248	21,400,595	40,595,843
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	178,152	33,884	212,036
LIABILITIES			
Accounts Payable	138,118	89,809	227,927
Contracts Payable	-	20,000	20,000
Salaries and Benefits Payable	21,694	6,670	28,364
Unearned Revenue	19,153	-	19,153
Interest Payable	5,358	21,082	26,440
OPEB Liability - Due in More Than One Year	9,881	7,475	17,356
Pension Liability	603,359	221,396	824,755
Bond Principal Payable:			
Due Within One Year	565,000	326,000	891,000
Due in More Than One Year	1,948,251	5,580,845	7,529,096
Compensated Absences Payable			
Due Within One Year	40,413	26,959	67,372
Due in More Than One Year	23,173	-	23,173
Total Liabilities	3,374,400	6,300,236	9,674,636
DEFERRED INFLOWS OF RESOURCES			
Pension Related	66,989	11,162	78,151
NET POSITION			
Net Investment in Capital Assets	10,546,126	9,844,453	20,390,579
Restricted for			
Debt Service	1,073,471	-	1,073,471
Capital Projects	161,538	-	161,538
Economic Development Authority	1,029,834	-	1,029,834
Tax Increment Districts	2,392	-	2,392
Police Forfeitures	5,698	-	5,698
Unrestricted	3,112,952	5,278,628	8,391,580
Total Net Position	\$ 15,932,011	\$ 15,123,081	\$ 31,055,092

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 431,450	\$ 80,573	\$ -	\$ -	\$ (350,877)	\$ -	\$ (350,877)
Public Safety	691,522	220,540	78,851	-	(392,131)	-	(392,131)
Public Works	661,522	5,243	-	98,356	(557,923)	-	(557,923)
Culture and Recreation	290,902	-	33,373	80,144	(177,385)	-	(177,385)
Economic Development	227,723	38,897	33,910	28,270	(126,646)	-	(126,646)
Airport	135,178	118,781	-	42,074	25,677	-	25,677
Interest on Long-Term Debt	86,859	-	-	-	(86,859)	-	(86,859)
Total Governmental Activities	2,525,156	464,034	146,134	248,844	(1,666,144)	-	(1,666,144)
BUSINESS-TYPE ACTIVITIES							
Water	339,131	559,119	500	-	-	220,488	220,488
Sewer	847,372	756,305	-	10,000	-	(81,067)	(81,067)
Municipal Liquor	1,317,260	1,387,560	-	-	-	70,300	70,300
Total Business-Type Activities	2,503,763	2,702,984	500	10,000	-	209,721	209,721
Total Primary Government	\$ 5,028,919	\$ 3,167,018	\$ 146,634	\$ 258,844	(1,666,144)	209,721	(1,456,423)
GENERAL REVENUES							
Property Taxes					581,968	-	581,968
Franchise Fees					31,809	-	31,809
Tax Increments					60,079	-	60,079
Grants and Contributions not Restricted for a Particular Purpose					724,079	-	724,079
Investment Earnings (Losses)					79,153	88,210	167,363
Miscellaneous					139,591	29	139,620
TRANSFERS					394,819	(394,819)	-
Total General Revenues and Transfers					2,011,498	(306,580)	1,704,918
CHANGE IN NET POSITION							
Net Position - Beginning of Year					15,964,544	15,623,227	31,587,771
Restatement (See Note 10)					(377,887)	(403,287)	(781,174)
Net Position - Beginning, as Restated					15,586,657	15,219,940	30,806,597
NET POSITION - END OF YEAR							
					\$ 15,932,011	\$ 15,123,081	\$ 31,055,092

See accompanying Notes to Financial Statements

FUND FINANCIAL STATEMENTS

**CITY OF PAYNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General Fund 100	Economic Development Revolving Loan 210	Paynesville Economic Development Authority 220
ASSETS			
Cash and Investments	\$ 1,404,941	\$ 301,394	\$ 160,233
Taxes Receivable - Delinquent	26,162	-	-
Special Assessments Receivable:			
Delinquent	-	-	-
Noncurrent	-	-	-
Accounts Receivable	24,837	-	-
Interest Receivable	33,489	-	-
Prepaid Items	39,138	-	-
Loans Receivable, Net of Allowance	-	763,895	-
Due from Other Funds	89,865	-	1,000
Advances to Other Funds	97,350	-	-
Due from Other Governments	11,839	-	-
	<u>11,839</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 1,727,621</u>	<u>\$ 1,065,289</u>	<u>\$ 161,233</u>
LIABILITIES			
Accounts Payable	\$ 32,961	\$ 1,368	\$ 8,077
Due to Other Funds	-	89,865	-
Advances from Other Funds	-	-	97,350
Salaries and Benefits Payable	21,193	-	501
Unearned Revenue	19,153	-	-
	<u>19,153</u>	<u>-</u>	<u>-</u>
Total Liabilities	73,307	91,233	105,928
DEFERRED INFLOWS OF RESOURCES			
Unavailable Taxes	26,163	-	-
Unavailable Special Assessments	-	-	-
Unavailable Loans Receivable	-	763,895	-
	<u>-</u>	<u>763,895</u>	<u>-</u>
Total Deferred Inflows of Resources	26,163	763,895	-
FUND BALANCES			
Nonspendable for Prepaid Items	39,138	-	-
Nonspendable for Advances to Other Funds	97,350	-	-
Restricted for Economic Development Authority	-	210,161	55,305
Restricted for Debt Service	-	-	-
Restricted for Capital Projects	-	-	-
Restricted for Tax Increment Finance Districts	-	-	-
Restricted for Police Operations	-	-	-
Committed for Capital Projects	-	-	-
Committed for Storm Shelter	20,000	-	-
Unassigned	1,471,663	-	-
	<u>1,471,663</u>	<u>-</u>	<u>-</u>
Total Fund Balances	1,628,151	210,161	55,305
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 1,727,621</u>	<u>\$ 1,065,289</u>	<u>\$ 161,233</u>

See accompanying Notes to Financial Statements

Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 547,283	\$ 1,800,853	\$ 55,024	\$ 4,269,728
-	-	-	26,162
5,393	-	-	5,393
459,161	383,723	-	842,884
-	-	-	24,837
-	-	-	33,489
-	-	-	39,138
-	-	-	763,895
-	-	-	90,865
-	-	-	97,350
1,966	42,074	-	55,879
<u>\$ 1,013,803</u>	<u>\$ 2,226,650</u>	<u>\$ 55,024</u>	<u>\$ 6,249,620</u>
\$ -	\$ 55,729	\$ 39,983	\$ 138,118
-	-	1,000	90,865
-	30,000	-	127,350
-	-	-	21,694
-	-	-	19,153
-	85,729	40,983	397,180
-	-	-	26,163
464,554	383,723	-	848,277
-	-	-	763,895
464,554	383,723	-	1,638,335
-	-	-	39,138
-	-	-	97,350
-	-	-	265,466
549,249	-	-	549,249
-	239,944	-	239,944
-	-	8,885	8,885
-	-	5,698	5,698
-	1,517,254	-	1,517,254
-	-	-	20,000
-	-	(542)	1,471,121
<u>549,249</u>	<u>1,757,198</u>	<u>14,041</u>	<u>4,214,105</u>
<u>\$ 1,013,803</u>	<u>\$ 2,226,650</u>	<u>\$ 55,024</u>	<u>\$ 6,249,620</u>

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**CITY OF PAYNESVILLE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 4,214,105

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	\$ 19,797,969	
Less Accumulated Depreciation	(6,738,592)	
		13,059,377

The City's Net Pension Asset and Liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:

Net Pension Asset	104,466	
Net Pension Liability	(603,359)	
Deferred Inflows of Resources - Pension Related	(66,989)	
Deferred Outflows of Resources - Pension Related	178,152	
		(387,730)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 1,638,335

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:

Bond Principal Payable	(2,545,000)	
Discount on Bonds	31,749	
Other Postemployment Benefits	(9,881)	
Compensated Absences Payable	(63,586)	
Accrued Interest Payable	(5,358)	
		(2,592,076)

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 15,932,011**

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

	General Fund 100	Economic Development Revolving Loan 210	Paynesville Economic Development Authority 220
REVENUES			
Property Taxes	\$ 374,736	\$ -	\$ -
Tax Increments	-	-	-
Franchise Taxes	31,809	-	-
Special Assessments	-	-	-
Licenses and Permits	196,073	-	-
Intergovernmental	833,673	-	16,000
Charges for Services	206,230	-	-
Fines and Forfeitures	10,970	-	-
Miscellaneous			
Investment Income	22,809	4,973	2,679
Contributions and Donations	5,244	-	-
Other Interest Income	-	32,509	-
Loan Receipts	-	87,279	-
Reimbursements	7,677	-	2,548
Other	28,564	-	4,843
Total Revenues	<u>1,717,785</u>	<u>124,761</u>	<u>26,070</u>
EXPENDITURES			
CURRENT			
General Government	365,008	-	-
Public Safety	648,430	-	-
Public Works	190,134	-	-
Culture and Recreation	189,848	-	-
Economic Development	-	72,231	29,134
Airport	93,381	-	-
DEBT SERVICE			
Principal	-	-	-
Interest and Other Charges	-	-	-
CAPITAL OUTLAY			
General Government	6,110	-	-
Public Safety	8,944	-	-
Public Works	1,672	-	-
Culture and Recreation	2,807	-	-
Economic Development	-	-	2,008
Airport	-	-	-
Total Expenditures	<u>1,506,334</u>	<u>72,231</u>	<u>31,142</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	211,451	52,530	(5,072)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Assets	665	-	-
Transfers In	48,742	-	32,210
Transfers Out	(213,781)	(3,311)	-
Total Other Financing Sources (Uses)	<u>(164,374)</u>	<u>(3,311)</u>	<u>32,210</u>
NET CHANGE IN FUND BALANCES	47,077	49,219	27,138
Fund Balances - Beginning of Year	<u>1,581,074</u>	<u>160,942</u>	<u>28,167</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,628,151</u>	<u>\$ 210,161</u>	<u>\$ 55,305</u>

See accompanying Notes to Financial Statements

Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 208,800	\$ -	\$ -	\$ 583,536
-	-	88,802	88,802
-	-	-	31,809
108,980	-	-	108,980
-	-	-	196,073
-	77,354	-	927,027
-	-	-	206,230
-	-	207	11,177
11,619	36,697	376	79,153
-	22,518	-	27,762
-	-	-	32,509
-	-	-	87,279
77,271	14,854	-	102,350
-	1,450	-	34,857
<u>406,670</u>	<u>152,873</u>	<u>89,385</u>	<u>2,517,544</u>
-	16,989	-	381,997
-	-	62	648,492
-	17,452	-	207,586
-	47,301	-	237,149
-	-	79,966	181,331
-	4,015	-	97,396
545,000	-	-	545,000
77,951	-	-	77,951
-	116,426	-	122,536
-	49,819	-	58,763
-	302,844	-	304,516
-	134,751	-	137,558
-	-	-	2,008
-	50,410	-	50,410
<u>622,951</u>	<u>740,007</u>	<u>80,028</u>	<u>3,052,693</u>
(216,281)	(587,134)	9,357	(535,149)
-	-	-	665
204,750	264,882	-	550,584
-	-	(3,742)	(220,834)
<u>204,750</u>	<u>264,882</u>	<u>(3,742)</u>	<u>330,415</u>
(11,531)	(322,252)	5,615	(204,734)
<u>560,780</u>	<u>2,079,450</u>	<u>8,426</u>	<u>4,418,839</u>
<u>\$ 549,249</u>	<u>\$ 1,757,198</u>	<u>\$ 14,041</u>	<u>\$ 4,214,105</u>

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CITY OF PAYNESVILLE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (204,734)

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 their estimated useful lives as depreciation expense.

Loss on Disposal of Capital Assets	\$ (87,306)	
Capital Outlays	673,389	
Depreciation Expense	<u>(468,801)</u>	117,282

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (81,865)

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. 985

Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources. (9,843)

Other postemployment benefits are not reported in governmental funds. (2,978)

Repayment of long-term debt is reported as an expenditure or other financing use in governmental funds, but the repayment reduces long-term liabilities on the statement of net position. In the current period, this amount consists of:

Bond Principal Retirement	545,000	
Bond Discount Amortization	(9,893)	
Compensated Absences Increase	<u>(8,600)</u>	<u>526,507</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 345,354

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015

	Water (110,111,113, 523, 524)	Sewer (115,116,117, 118,380,570,575)	Municipal Liquor (105,106)	Total
ASSETS				
CURRENT ASSETS				
Cash and Investments (Including Cash Equivalents)	\$ 2,058,973	\$ 2,552,208	\$ 447,100	\$ 5,058,281
Special Assessments Receivable:				
Delinquent	465	466	-	931
Deferred	13,412	13,412	-	26,824
Accounts Receivable	80,733	127,678	-	208,411
Due from Other Governments	-	121,351	-	121,351
Advances to Other Funds	-	30,000	-	30,000
Inventories	-	-	175,930	175,930
Prepaid Items	5,774	18,590	3,205	27,569
Total Current Assets	<u>2,159,357</u>	<u>2,863,705</u>	<u>626,235</u>	<u>5,649,297</u>
NONCURRENT ASSETS				
Capital Assets:				
Land	100,546	747,916	-	848,462
Construction in Progress	3,363,684	-	-	3,363,684
Buildings and Improvements	461,240	6,034,561	-	6,495,801
Furniture and Equipment	-	-	46,022	46,022
Machinery and Equipment	287,575	119,948	-	407,523
Wastewater Treatment Facility	-	6,248,244	-	6,248,244
Underground Mains	2,889,682	3,978,584	-	6,868,266
Total Capital Assets	<u>7,102,727</u>	<u>17,129,253</u>	<u>46,022</u>	<u>24,278,002</u>
Less Accumulated Depreciation	<u>(1,503,183)</u>	<u>(6,984,425)</u>	<u>(39,096)</u>	<u>(8,526,704)</u>
Total Noncurrent Assets	<u>5,599,544</u>	<u>10,144,828</u>	<u>6,926</u>	<u>15,751,298</u>
Total Assets	<u>7,758,901</u>	<u>13,008,533</u>	<u>633,161</u>	<u>21,400,595</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	6,777	11,726	15,381	33,884
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	32,059	14,543	43,207	89,809
Contracts Payable	20,000	-	-	20,000
Salaries and Wages Payable	1,698	2,992	1,980	6,670
Interest Payable	10,819	10,263	-	21,082
Compensated Absences Payable	6,815	12,332	7,812	26,959
General Obligation Bonds Payable	171,000	155,000	-	326,000
Total Current Liabilities	<u>242,391</u>	<u>195,130</u>	<u>52,999</u>	<u>490,520</u>
NONCURRENT LIABILITIES				
Net Pension Liability	44,279	76,618	100,499	221,396
OPEB Liabilities	2,255	4,629	591	7,475
General Obligation Bonds Payable	2,896,217	2,684,628	-	5,580,845
Total Noncurrent Liabilities	<u>2,942,751</u>	<u>2,765,875</u>	<u>101,090</u>	<u>5,809,716</u>
Total Liabilities	<u>3,185,142</u>	<u>2,961,005</u>	<u>154,089</u>	<u>6,300,236</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related	2,232	3,863	5,067	11,162
NET POSITION				
Net Investment in Capital Assets	2,532,327	7,305,200	6,926	9,844,453
Unrestricted	2,045,977	2,750,191	482,460	5,278,628
Total Net Position	<u>\$ 4,578,304</u>	<u>\$ 10,055,391</u>	<u>\$ 489,386</u>	<u>\$ 15,123,081</u>

See accompanying Notes to Financial Statements

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

	Water (110,111,113, 523, 524)	Sewer (115,116,117, 118,380,570,575)	Municipal Liquor (105,106)	Total
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 1,387,560	\$ 1,387,560
Cost of Sales	-	-	1,075,540	1,075,540
Gross Profit	-	-	312,020	312,020
OPERATING REVENUES				
Charges For Services	543,560	648,654	-	1,192,214
Permits, Hookup Fees and Penalties	9,748	4,900	-	14,648
Total Operating Revenues	553,308	653,554	-	1,206,862
OPERATING EXPENSES				
Wages and Salaries	68,212	118,850	145,159	332,221
Materials and Supplies	18,252	5,718	4,270	28,240
Repairs and Maintenance	48,241	69,394	4,280	121,915
Professional Services	11,299	47,132	1,761	60,192
Insurance	9,797	22,373	4,944	37,114
Utilities	40,336	185,847	13,346	239,529
Rent	-	-	20,378	20,378
Depreciation	78,472	359,984	1,705	440,161
Miscellaneous	28,799	8,825	45,877	83,501
Total Operating Expenses	303,408	818,123	241,720	1,363,251
OPERATING INCOME (LOSS)	249,900	(164,569)	70,300	155,631
NONOPERATING REVENUES (EXPENSES)				
Investment Income	36,027	44,558	7,625	88,210
Special Assessments	5,551	5,566	-	11,117
Intergovernmental	-	10,000	-	10,000
Other Income	760	97,185	29	97,974
Loss on Disposal of Assets	(5,961)	-	-	(5,961)
Interest Expense	(29,762)	(29,249)	-	(59,011)
Total Nonoperating Revenues (Expenses)	6,615	128,060	7,654	142,329
NET INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	256,515	(36,509)	77,954	297,960
Capital Contributions to Other Funds	(26,699)	(38,370)	-	(65,069)
Transfers Out	(148,000)	(136,750)	(45,000)	(329,750)
CHANGE IN NET POSITION	81,816	(211,629)	32,954	(96,859)
Net Position - Beginning of Year	4,533,722	10,548,565	540,940	15,623,227
Restatement (See Note 10)	(37,234)	(281,545)	(84,508)	(403,287)
Net Position - Beginning of Year, Restated	4,496,488	10,267,020	456,432	15,219,940
NET POSITION - END OF YEAR	<u>\$ 4,578,304</u>	<u>\$ 10,055,391</u>	<u>\$ 489,386</u>	<u>\$ 15,123,081</u>

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

	Water (110,111,113, 523, 524)	Sewer (115,116,117, 118,380,570,575)	Municipal Liquor (105,106)	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 549,106	\$ 783,534	\$ 1,387,560	\$ 2,720,200
Payments to Suppliers	(192,640)	(342,959)	(1,160,906)	(1,696,505)
Payments to Employees	(64,914)	(110,400)	(139,422)	(314,736)
Net Cash Provided by Operating Activities	291,552	330,175	87,232	708,959
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous Revenue	760	97,185	29	97,974
Transfer to Other Funds	(148,000)	(136,750)	(45,000)	(329,750)
Net Cash Provided (Used) by Noncapital Financing Activities	(147,240)	(39,565)	(44,971)	(231,776)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Issuance of Debt	307,936	26,767	-	334,703
Principal Payments on Debt	(169,000)	(154,000)	-	(323,000)
Interest Paid on Debt	(28,006)	(29,534)	-	(57,540)
Special Assessments	1,667	1,667	-	3,334
Acquisition of Capital Assets	(189,345)	(40,212)	-	(229,557)
Proceeds on Sale of Capital Assets	-	1,845	-	1,845
Net Cash Provided (Used) by Capital and Related Financing Activities	(76,748)	(183,467)	-	(260,215)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	36,027	44,558	7,625	88,210
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	103,591	151,701	49,886	305,178
Cash and Cash Equivalents - Beginning of Year	1,955,382	2,400,507	397,214	4,753,103
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,058,973	\$ 2,552,208	\$ 447,100	\$ 5,058,281

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

	Water (110,111,113)	Sewer (115,116,117, 118,380)	Municipal Liquor (105,106)	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 249,900	\$ (164,569)	\$ 70,300	\$ 155,631
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	78,472	359,984	1,705	440,161
(Increase) Decrease in Assets and Deferred Outflows of Resources:				
Accounts Receivable	(4,202)	1,895	-	(2,307)
Due from Other Governments	-	128,085	-	128,085
Prepaid Items	59	(3,937)	357	(3,521)
Inventory	-	-	(11,207)	(11,207)
Deferred Outflows of Resources	(6,777)	(11,726)	(15,381)	(33,884)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:				
Accounts Payable	(35,975)	267	20,340	(15,368)
Salaries Payable	(194)	2,096	(1,099)	803
OPEB Liability	324	665	85	1,074
Compensated Absences Payable	668	1,361	1,074	3,103
Net Pension Liability	7,045	12,191	15,991	35,227
Deferred Inflows of Resources	2,232	3,863	5,067	11,162
Total Adjustments	41,652	494,744	16,932	553,328
Net Cash Provided by Operating Activities	\$ 291,552	\$ 330,175	\$ 87,232	\$ 708,959
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Contribution of Capital Assets to Governmental Funds	\$ (26,699)	\$ (38,370)	\$ -	\$ (65,069)

See accompanying Notes to Financial Statements.

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2015**

ASSETS

Cash and Investments	<u>\$ 70,443</u>
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LIABILITIES

Due to Other Governments - Deputy Registrar	<u>\$ 70,443</u>
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See accompanying Notes to Financial Statements.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paynesville (the City) was formed and operates pursuant to applicable Minnesota laws. The governing body consists of a four-member council and a mayor elected by voters of the City.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

The financial reporting entity consists of the City (primary government) and the component unit (legally separate organization) for which the Primary Government is financially accountable. There is financial accountability if the Primary Government appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body; or there is the potential for the organization to provide specific financial benefits or to impose specific financial burdens on the Primary Government. In conformity with generally accepted accounting principles, the financial statements of the City's component unit are included in the financial reporting entity as a blended component unit.

Blended Component Unit

The financial statements of the Economic Development Authority (EDA) of Paynesville have been included in the financial reporting entity as a blended component unit since the EDA is a legally separate entity and the members of the board are appointed by the City Council. The members of the EDA board act as an advisory board to the Council which is the governing board of the EDA.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the Primary Government and its component unit. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. 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 to external parties for support. Likewise, the Primary Government is reported separately from certain legally separate component units for which the Primary Government is financially accountable.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary fund. Separate statements for each fund category – governmental, proprietary, and fiduciary are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

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

Economic Development Revolving Loan Fund – The Economic Development Revolving Loan Special Revenue Fund is used to account for the revolving loan activities. The original funding source for this fund was a grant. Ongoing revenues include loan repayments from local businesses.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

Paynesville Economic Development Authority Fund – The Economic Development Authority Special Revenue Fund is used to account for the financial activity of the City's Economic Development Authority. The primary funding source for this blended component unit is grant revenues.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs of governmental funds.

Capital Project Fund – The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The City reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the City's water wells' operations.

Sewer Fund – The Sewer Fund accounts for the activities of the City's sewer system.

Municipal Liquor Fund – The Municipal Liquor Fund accounts for the activities of the City's municipal liquor store.

Additionally, the City reports an agency fund. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. This fund accounts for assets that the City holds for the State of Minnesota in an agency capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and compensated absences, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes other charges between the various 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 revenue of the City's enterprise funds are charges to customers for sales of goods 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.

D. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from these estimates.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Cash and Investments (Including Cash Equivalents)

Cash balances are invested to the extent available in various securities as authorized by Minnesota Statutes. Investment earnings are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Investments are stated at fair value. Fair market value adjustments are all reported in the General Fund.

For the purposes of the statement of cash flows of the proprietary funds, cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less.

The City considers all cash and investments under the classifications current assets and restricted assets to be cash and cash equivalents, except those held with fiscal agents. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

3. Property Taxes

The City levies its general property tax for the subsequent year during the month of December and certifies its levy to Stearns County which acts as the collection agency for property taxes within the County. Taxes are recognized as receivables on January 1 of the current year when they are levied against individual properties by the County. They become a lien against the property against which they are levied on the levy date.

Current year property tax revenues represent the tax levy certified to the County Auditor in December of 2014 which was collected during the year ended December 31, 2015. Any adjustments or abatements to either the current, or any prior year, levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year end are classified as delinquent and not considered measurable and available and are fully offset by deferred inflows of resources in the governmental fund financial statements. Delinquent taxes receivable represent the past six years of uncollected tax years. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Accounts Receivable

No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary. Write-offs are done on a case-by-case basis.

5. Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with Minnesota Statutes. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year. Special assessments receivable represents the past six years of uncollected special assessments. Property owners are allowed to prepay future installments without interest or prepayment penalties. In the governmental fund financial statements, special assessment levies are recorded as a receivable and as deferred inflows of resources at the time of the levy. Deferred inflows of resources are recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

6. Loans Receivable

Loans receivable represents the unpaid principal portions of loans made to local businesses through its revolving loan fund in the fund financial statements. Principal and interest received by the City on these loans are recognized in the period in which they are collected; accordingly, the unpaid principal portions are also reflected in deferred inflows of resources in the fund financial statements.

The City has provided an allowance for uncollectable loans receivable based the specific identification method. An allowance is estimated for these loans based on the historical experience of the City and knowledge about the loan payment schedules. At December 31, 2015, the allowance for uncollectable loans receivable was \$20,000.

7. Inventory

Inventory is valued at cost using the first in, first out (FIFO) method. The only fund to carry inventory is the municipal liquor fund.

8. Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items. That portion of the relevant funds' balances equal to the prepaid items is classified as nonspendable.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$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. Costs of Infrastructure assets from 1980 to 2003, totaling \$24,829,566, have been estimated. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the Primary Government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30-40
Building Improvements	7-30
Furniture and Equipment	5
Vehicles	5
Machinery and Equipment	5-20
Fire Trucks	15
Utility Distribution System	40
Infrastructure	20-50
Ponds	20

10. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net pension that applies to a future period. The City will not recognize the related outflow until a future event occurs.

11. Compensated Absences

All employees earn paid-time off (PTO) under the City's personnel policy and labor contracts. Under this policy, employees can accrue up to 375 hours of PTO and be paid out up to 200 hours upon resignation. Any hours over the maximum accrual will be paid out in one week increments. Vacation and PTO accruals are based on years of service with the City.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. 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 amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

13. Net Pension Liability

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 Paynesville Firefighters Relief Association Plans (FRA), and additions to/deductions from PERA's and the FRA's fiduciary net position have been determined on the same basis as they are reported by PERA and the FRA. For this purpose, plan contributions and benefit payments (including refunds of 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.

14. Deferred Inflows of Resources

In addition to liabilities, the financial statements 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 two types of item which occur relating to revenue recognition: The first deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. The second type of deferred inflow of resources relates to pension liabilities.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

15. Fund Balance/Net Position

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance relate to prepaids, inventories, and long term receivables. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the City Council. The City Council passed a resolution authorizing the City Council to assign fund balances and their intended uses. Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the City's policy to use committed first, then assigned, and finally unassigned amounts.

The City's financial goal in the fund balance policy is to maintain unassigned fund balance in the General Fund of 55 percent to 60 percent of the total operating expenditures of the previous year.

Net position represents the differences between assets and deferred outflows of resources less liabilities and deferred inflows of resources in the government-wide and proprietary financial statements. Net position – 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 capital assets. Net position is reported as restricted in the financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

F. Revenues, Expenditures, and Expenses

1. Revenues

In the fund financial statements, property taxes are recognized to the extent they are collected and received in the current period or within 60 days after year-end. Portions paid by the State in the form of market value credit aid, and other state tax credits are included in intergovernmental revenues. Delinquent property taxes receivable which have not been recognized as revenue are equally offset in the financial statements by deferred inflows of resources. Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recorded as revenues measurable and available. Special assessments principal and interest earnings are recorded as revenues in the same manner as property taxes.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Property Tax Collection Calendar

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. Stearns County is the collecting agency for the levy and then remits the collections to the City. All taxes not collected as of December 31 are shown as delinquent taxes receivable.

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

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

Property owners are required to pay one-half of their real estate taxes by May 15 and the balances by October 15.

Within 30 days after the May settlement, the County Treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City Treasurer. The County Treasurer must pay the balance to the City Treasurer within 60 days after the settlement, provided that after 45 days interest begins to accrue.

Within ten business days after November 15, the County Treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

2. Expenditures and Expenses

Expenditure recognition for governmental fund types includes only amounts represented by current liabilities. Since noncurrent liabilities do not affect net current fund balance, they are not recognized as governmental fund expenditures or liabilities. They are reported as liabilities on the statement of net position.

Proprietary funds recognize expenses, including compensated absences, when they are incurred.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

	Total
Nonmajor Governmental Funds	
Tax Increment Financing District No. 1-14 Fund	\$ (389)
Tax Increment Financing District No. 1-15 Fund	(153)

Expenditures exceeded budgeted amounts in the following funds:

	Expenditures	Budget	Excess
Economic Development Authority Fund	\$ 31,142	\$ 28,899	\$ 2,243

The overage in the Economic Development Authority Fund was financed by the prior year sale of a plot in Opportunity Park.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

As of December 31, 2015, the City's deposit and investment balances were as follows:

	Bank Balance	Book Balance
Deposits		
Checking Accounts	\$ 1,923,767	\$ 1,790,829
Certificates of Deposit	422,070	422,070
Cash on Hand	2,200	2,200
Total Deposits	\$ 2,348,037	\$ 2,215,099

Total Deposits and Investments		
Governmental Funds		\$ 4,269,728
Proprietary Funds		5,058,281
Agency Fund		70,443
Total		\$ 9,398,452

	Amount
Deposits	\$ 2,215,099
Investments	7,183,353
Total	\$ 9,398,452

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investment	Credit Risk		Concentration	Interest Rate Risk		Carrying Fair Value
	Rating	Agency	Risk % of Portfolio	Maturity Date	Interest Rate	
Smith Barney						
Transferable Certificate of Deposit						
Goldman Sachs Bank USA	N/R	N/A	N/A	08/24/16	1.85 %	\$ 151,047
GE Capital Financial Inc.	N/R	N/A	N/A	08/26/16	1.85	55,386
GE Capital Financial Inc.	N/R	N/A	N/A	01/09/17	3.45	98,381
World Financial Network Bank	N/R	N/A	N/A	06/08/17	1.85	101,004
Oriental B&T CD Hato	N/R	N/A	N/A	04/19/17	0.90	149,655
State Bank of India	N/R	N/A	N/A	07/25/17	1.55	247,296
Sallie Mae Bank-UT	N/R	N/A	N/A	09/19/17	1.60	151,050
Ally Bank UT	N/R	N/A	N/A	12/11/17	1.55	244,267
Commenity Bank Jumbo	N/R	N/A	N/A	12/19/17	1.40	100,303
GE Capital Bank	N/R	N/A	N/A	12/21/17	1.05	95,199
Bank Baroda New York	N/R	N/A	N/A	03/08/18	1.30	244,094
Discover BK Greenwood	N/R	N/A	N/A	04/17/18	1.15	149,270
Mercantil CD Coral Gables	N/R	N/A	N/A	06/28/18	1.55	148,713
Compass BK Birmingham	N/R	N/A	N/A	11/06/18	1.90	100,384
Sallie Mae Salt Lake	N/R	N/A	N/A	11/06/18	2.10	96,684
Amex Centurion Salt Lake City	N/R	N/A	N/A	12/11/18	2.00	149,076
Amex Centurion Salt Lake City	N/R	N/A	N/A	12/18/18	1.95	95,356
Barclays Bank Wilmington	N/R	N/A	N/A	07/16/19	2.05	149,634
American Express Salt Lake City	N/R	N/A	N/A	07/17/19	1.95	244,395
Capital One Bank Glen Allen	N/R	N/A	N/A	09/10/19	1.90	149,322
Capital One Bank Glen Allen	N/R	N/A	N/A	11/12/19	2.10	95,789
GE Capital Retail Bank	N/R	N/A	N/A	12/16/19	1.60	146,300
HSBC Bank USA	N/R	N/A	N/A	12/18/19	1.30	99,787
First Business Madison	N/R	N/A	N/A	12/30/19	2.00	198,456
Discover Greenwood DE	N/R	N/A	N/A	02/04/20	1.95	94,998
Third Federal Cleveland OH	N/R	N/A	N/A	03/26/20	1.80	243,055
National Bank Superior	N/R	N/A	N/A	03/27/20	1.70	239,603
Capital One NA Mclean VA	N/R	N/A	N/A	07/29/20	2.30	244,309
Enerbank USA	N/R	N/A	N/A	08/28/20	2.25	244,118
BMW Salt Lake City UT	N/R	N/A	N/A	09/30/20	2.20	149,330
Everbank Cd Jacksonville FL	N/R	N/A	N/A	10/30/20	1.75	99,465
Synchrony Draper	N/R	N/A	N/A	11/23/20	2.20	95,649
Firstbank CD Santurce	N/R	N/A	N/A	12/14/20	2.70	151,805
First Savings Renton WA	N/R	N/A	N/A	01/15/21	1.50	243,219
Firstbank CD Santurce	N/R	N/A	N/A	02/01/21	2.75	97,080
JP Morgan Chase Bank NA Columbus	N/R	N/A	N/A	02/19/21	1.00	99,659
JP Morgan Chase Bank NA FID	N/R	N/A	N/A	03/20/21	1.35	143,942
Wells Fargo Bank	N/R	N/A	N/A	04/16/21	1.30	96,231
Goldman Sachs Bank USA	N/R	N/A	N/A	05/21/21	2.65	95,960
Wells Fargo Bank Sioux Falls SD	N/R	N/A	N/A	05/26/21	1.35	148,605
Cit Salt Lake City	N/R	N/A	N/A	06/04/21	2.70	96,897
Gulf Coast Bank New Orleans LA	N/R	N/A	N/A	11/22/21	2.15	197,544
Commenity Bank	N/R	N/A	N/A	11/24/21	2.60	151,355
Webster 5 CNTs	N/R	N/A	N/A	02/28/22	2.25	147,182

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investment	Credit Risk		Concentration	Interest Rate Risk		Carrying Fair Value
	Rating	Agency	Risk % of Portfolio	Maturity Date	Interest Rate	
Bonds						
Federal Home Loan Bank Step	Moody	AAA	N/A	11/23/2021	1.50 %	\$ 97,986
Federal Home Loan Bank Step	Moody	AAA	N/A	1/30/2023	1.50	294,309
Federal Home Loan Bank Step	Moody	AAA	N/A	5/16/2023	1.50	250,210
Total Investments				Total		<u>\$ 7,183,353</u>

Credit Risk

Minnesota Statutes restrict the types of investments in which the City may invest. The City's investment policy identifies six different acceptable investment types and the minimum requirements of each one.

Minnesota Statutes §§118A.04 and 118A.05 generally authorize the following types of investments as available to the City;

- a. Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statutes §118A.04, subd. 6;
- b. Mutual funds through shares of registered investment companies provided the mutual fund received certain ratings depending on the investments;
- c. General obligations of the state of Minnesota and its municipalities and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service.
- d. Bankers' Acceptances of United States Banks;
- e. Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less;
- f. With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy doesn't specify any limits relating to concentration of investments. The City holds 8.9 percent of their investments issued by the Federal Home Loan Bank Step. See the table above for specific concentrations of credit risk.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Custodial Credit Risk - Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy addresses collateralization and states that at no time will deposits exceed FDIC coverage limits unless such excesses are protected by pledged securities.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110 percent of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

As of December 31, 2015, all City deposits were covered by insurance or collateral.

2. Loans Receivable

The City uses revolving loans for economic development purposes. The City's management has estimated a \$20,000 allowance for doubtful accounts as of December 31, 2015 based on the specific identification method. The City had the following loans receivable as of December 31, 2015:

	Interest Rate	Principal Balance 12/31/15
Queen Bee's Bar & Grill	3.5 %	\$ 38,604
Bloom Corner Floral	4.8	6,633
Koronis Lanes #2	3.5	4,862
Skinz #4	3.5	44,445
Midwest Cylinder #2	3.5	171,906
Skinz #5	3.5	35,997
Sweet Nook	3.5	7,833
Savage Land Partnership	3.5	261,020
Eats & Treats	3.5	15,429
Louis Industries	3.5	175,158
Lamb Labor Services	3.5	12,153
William Fuchs	3.5	9,855
	Less: Allowance	(20,000)
	Total	<u>\$ 763,895</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the City for the year ended December 31, 2015, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 969,977	\$ -	\$ 78,374	\$ 891,603
Construction in Progress	1,592,738	237,570	494,547	1,335,761
Total Capital Assets Not Being Depreciated	2,562,715	237,570	572,921	2,227,364
Capital Assets Being Depreciated				
Buildings and Improvements	1,958,320	136,021	15,800	2,078,541
Infrastructure - Streets	11,722,053	413,334	-	12,135,387
Infrastructure - Trails	1,110,954	127,832	-	1,238,786
Furniture and Equipment	191,321	66,216	31,164	226,373
Machinery and Equipment	906,604	87,313	27,972	965,945
Vehicles	845,343	99,650	19,420	925,573
Total Capital Assets Being Depreciated	16,734,595	930,366	94,356	17,570,605
Less: Accumulated Depreciation for				
Buildings and Improvements	643,624	51,145	15,438	679,331
Infrastructure - Streets	4,457,080	290,858	-	4,747,938
Infrastructure - Trails	151,958	28,061	-	180,019
Furniture and Equipment	134,033	8,392	22,594	119,831
Machinery and Equipment	360,743	38,520	27,972	371,291
Vehicles	607,777	51,825	19,420	640,182
Total Accumulated Depreciation	6,355,215	468,801	85,424	6,738,592
Total Capital Assets Being Depreciated, Net	10,379,380	461,565	8,932	10,832,013
Governmental Activities Capital Assets, Net	<u>\$ 12,942,095</u>	<u>\$ 699,135</u>	<u>\$ 581,853</u>	<u>\$ 13,059,377</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

The following is a summary of the proprietary fund capital assets at December 31, 2015:

	Beginning Balance	Additions	Disposals	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 848,462	\$ -	\$ -	\$ 848,462
Construction in Progress	3,329,114	34,570	-	3,363,684
Total Capital Assets Not Being Depreciated	<u>4,177,576</u>	<u>34,570</u>	<u>-</u>	<u>4,212,146</u>
Capital Assets Being Depreciated				
Buildings and Improvements	6,667,101	-	171,300	6,495,801
Furniture and Equipment	46,022	-	-	46,022
Machinery and Equipment	870,816	-	463,293	407,523
Wastewater Treatment Facility	7,095,342	-	847,098	6,248,244
Underground Mains	6,868,266	-	-	6,868,266
Total Capital Assets Being Depreciated	<u>21,547,547</u>	<u>-</u>	<u>1,481,691</u>	<u>20,065,856</u>
Less: Accumulated Depreciation for				
Buildings and Improvements	591,200	248,712	137,509	702,403
Furniture and Equipment	37,391	1,705	-	39,096
Machinery, Furniture and Equipment	707,149	16,564	452,734	270,979
Wastewater Treatment Facility	6,362,853	38,273	668,366	5,732,760
Underground Mains	1,646,559	134,907	-	1,781,466
Total Accumulated Depreciation	<u>9,345,152</u>	<u>440,161</u>	<u>1,258,609</u>	<u>8,526,704</u>
Total Capital Assets Being Depreciated, Net	<u>12,202,395</u>	<u>(440,161)</u>	<u>223,082</u>	<u>11,539,152</u>
Business-Type Activities Capital Assets, Net	<u>\$ 16,379,971</u>	<u>\$ (405,591)</u>	<u>\$ 223,082</u>	<u>\$ 15,751,298</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

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

Governmental Activities:		
General Government	\$	27,645
Public Safety		40,711
Public Works		322,840
Culture and Recreation		39,823
Airport		37,782
Total Depreciation Expense - Governmental Activities	<u>\$</u>	<u>468,801</u>
Business-Type Activities:		
Water	\$	78,472
Sewer		359,984
Liquor		1,705
Total Depreciation Expense - Business-Type Activities	<u>\$</u>	<u>440,161</u>

B. Interfund Receivables, Payables, and Transfers

1. Due to/from Other Funds

The amounts due to and due from other funds as of December 31, 2015 are as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	EDA Fund	\$ 89,865	Loan to TIF Fund in Prior Years
EDA Fund	Nonmajor Governmental Funds	<u>1,000</u>	Cover TIF Expenses Until Increments Begin
	Total	<u>\$ 90,865</u>	

2. Advances to/from Other Funds

The amounts of advances between funds as of December 31, 2015 are as follows:

	Advances From		
	General	Sewer	Total
Advances To			
EDA Fund	\$ 97,350	\$ -	\$ 97,350
Capital Projects	<u>-</u>	<u>30,000</u>	<u>30,000</u>
Total	<u>\$ 97,350</u>	<u>\$ 30,000</u>	<u>\$ 127,350</u>

The balances above are to loan the EDA Fund money until the City sells lots in the Opportunity Park Development and for the Highway 23 bypass reimbursement that is not expected until future years.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers (Continued)

3. Interfund Transfers

The composition of interfund transfers as of December 31, 2015 was as follows:

		Transfers Out						
		General	Revolving Loan	Nonmajor Governmental	Water	Sewer	Municipal Liquor	Total
Transfers In:								
General	\$	-	-	3,742	-	-	45,000	\$ 48,742
Debt Service	-	-	-	108,000	96,750	-	-	204,750
Capital Projects	184,882	-	-	40,000	40,000	-	-	264,882
EDA Fund	28,899	3,311	-	-	-	-	-	32,210
Total	\$	213,781	3,311	3,742	148,000	136,750	45,000	\$ 550,584

These transfers were for allocating funds for debt service payments, administration, and capital projects as determined by the City Council.

Also reported on the government-wide statement of activities are capital asset transfers of \$65,069 from the business-type activities to the governmental activities. These are transfers of capital assets between the two opinion units.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Long-Term Debt

The City's Bond Rating for the year ended December 31, 2015 was Moody's Investor AA-.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both general government and proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

PFA General Obligation Sewer Revenue Note

In 2013, the City entered into a bond purchase and project loan agreement with Minnesota Public Facilities Authority (PFA). This note was issued for the purpose of constructing a new main lift station and rehabilitation of an aerated pond system, spray irrigation lift station and spray irrigation equipment. The total amount of funds to be received by the City is \$3,069,736. As the City expends funds on this project, they are reimbursed. The reimbursed funds are set up in the form of long-term debt.

PFA General Obligation Water Revenue Note

In 2013, the City entered into a bond purchase and project loan agreement with Minnesota Public Facilities Authority (PFA). This note was issued for the purpose of rehabilitating of the existing water treatment plant. The total amount of funds to be received by the City is \$3,615,135. As the City expends funds on this project, they are reimbursed. The reimbursed funds are set up in the form of long-term debt.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds, Including Refunding Bonds						
Series 2008A	5/21/08	2.3%-3.7%	\$ 1,370,000	12/1/18	\$ 465,000	\$ 150,000
Series 2010A G.O. Improvement	5/1/10	2.0%-3.5%	1,235,000	12/1/20	550,000	105,000
Series 2010B G.O. Improvement	5/1/10	2.0%-3.5%	685,000	12/1/20	365,000	70,000
Series 2010C G.O. Improvement Crossover Refund	11/1/10	2.0%-2.3%	520,000	12/1/17	150,000	75,000
Series 2012A G.O. Improvement Crossover Refund	6/1/12	1.0%-1.8%	420,000	12/1/18	255,000	85,000
Series 2014A G.O. Improvement	6/18/14	0.65%-2.50%	840,000	12/1/24	760,000	80,000
Total Governmental Activities Long-Term Debt					2,545,000	565,000
Less: Unamortized Discount					(31,749)	-
Total Governmental Activities Long-Term Debt, Net					<u>\$ 2,513,251</u>	<u>\$ 565,000</u>
BUSINESS-TYPE ACTIVITIES						
2013 PFA G.O. Sewer Revenue Note	2/12/13	1.0%	\$ 3,069,736	8/20/32	\$ 2,839,628	\$ 155,000
2013 PFA G.O. Water Revenue Note	11/14/13	1.0%	3,615,135	8/20/33	3,067,217	171,000
Total Business-Type Activities Long-Term Debt					5,906,845	326,000
Total Long-Term Debt					<u>\$ 8,420,096</u>	<u>\$ 891,000</u>

3. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
G.O. Improvement Bonds	\$ 3,090,000	\$ -	\$ 545,000	\$ 2,545,000	\$ 565,000
Other Postemployment Benefits	6,903	2,978	-	9,881	-
Compensated Absences	54,986	137,459	128,859	63,586	40,413
Total Governmental Activities	3,151,889	140,437	673,859	2,618,467	605,413
BUSINESS-TYPE ACTIVITIES					
PFA G.O. Revenue Notes	5,895,142	334,703	323,000	5,906,845	326,000
Other Postemployment Benefits	6,401	1,074	-	7,475	-
Compensated Absences	23,856	61,839	58,736	26,959	26,959
Total Business-Type Activities	5,925,399	397,616	381,736	5,941,279	352,959
Total Long-Term Liabilities	<u>\$ 9,077,288</u>	<u>\$ 538,053</u>	<u>\$ 1,055,595</u>	<u>\$ 8,559,746</u>	<u>\$ 958,372</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Minimum Debt Payments

Debt requirements to maturity are as follows:

Year Ending December	G.O. Bonds		PFA G.O. Revenue Notes	
	Principal	Interest	Principal	Interest
2016	\$ 565,000	\$ 65,368	\$ 326,000	\$ 60,424
2017	570,000	52,280	329,000	58,850
2018	510,000	37,565	333,000	55,560
2019	270,000	23,395	336,000	52,230
2020	275,000	15,925	340,000	48,870
2021-2025	355,000	21,050	1,748,000	192,760
2026-2030	-	-	1,836,000	103,610
2031-2033	-	-	963,000	17,500
Total	<u>\$ 2,545,000</u>	<u>\$ 215,583</u>	6,211,000	<u>\$ 589,804</u>
			(304,155)	
			<u>\$ 5,906,845</u>	

less: amount expected to be drawn down in future

Total

D. Operating Lease

The City leases a postage meter and copier under noncancelable operating leases. Total cost for these leases were \$7,085 for the year ended December 31, 2015. The future minimum lease payments for the leases are as follows:

Year Ended December 31,	Amount
2016	\$ 6,905
2017	6,763
2018	6,763
2019	4,709
2020	450

E. Risk Management

The City is exposed to various risks of loss related to: torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City (primary government) has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss, including employee health insurance.

The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining. The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, 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 PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

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 percent 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent 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. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF 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 PEPFF 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 PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 PENSION PLANS (CONTINUED)

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City contributions to the GERF for the year ended December 31, 2015, were \$41,758. The City contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City contributions to the PEPFF for the year ended December 31, 2015, were \$42,715. The City contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City reported a liability of \$497,520 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City proportion was 0.0096%.

For the year ended December 31, 2015, the City recognized pension expense of \$2,349 for its proportionate share of the GERF's pension expense.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

At December 31, 2015, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 25,084
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	47,098	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	7,046	-
City Contributions Subsequent to the Measurement Date	21,999	-
Total	<u>\$ 76,143</u>	<u>\$ 25,084</u>

\$21,999 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2016	\$ 5,762
2017	5,762
2018	5,762
2019	11,774
2020	-

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$327,235 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City proportion was 0.029%.

For the year ended December 31, 2015, the City recognized pension expense of \$5,040 for its proportionate share of the PEPFF's pension expense. The City also recognized \$1,620 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 53,067
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	57,016	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	25,201	-
City Contributions Subsequent to the Measurement Date	22,014	-
Total	<u>\$ 104,231</u>	<u>\$ 53,067</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFF Pension Costs (Continued)

\$22,014 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2016	\$ 8,681
2017	8,681
2018	8,681
2019	8,681
2020	(5,574)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per Year
Active Member Payroll Growth	3.50% per Year
Investment Rate of Return	7.90% per Year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45 %	5.50 %
International Equity	15	6.00
Bonds	18	1.45
Alternative Assets	20	6.40
Cash	2	0.50
Totals	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and PEPFF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

The following presents the City 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 proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (6.9%)	Current Discount Rate (7.9%)	1% Increase (8.9%)
City proportionate share of the GERF net pension liability:	\$ 782,277	\$ 497,520	\$ 262,353
City proportionate share of the PEPFF net pension liability:	637,786	327,235	70,667

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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN

A. Plan Description

Firefighters of the City of Paynesville are members of the Paynesville Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2014, membership includes 23 active participants and 4 terminated employees entitled to benefit but not yet receiving them. The Plan issues a stand-alone financial statement.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$2,000 for each year of active Fire Department service but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

B. Benefits Provided (Continued)

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 5 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$2,000 for each year the member was an active member of the Paynesville Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

C. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). The minimum contribution from the City of Paynesville and state aid is determined as follows:

Normal Cost	\$ 55,126
Amortization Payment on Unfunded Accrued Liability Prior to Any Change	7,307
Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change	-
Administrative Expenses	2,887
Less: Anticipated State Aid and Membership Dues	(26,150)
Less: Projected Investment Earnings	(33,027)
Total Contributions Required	\$ 6,143

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

C. Contributions (Continued)

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$36,938 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2014. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2014 was \$6,143.

D. Pension Costs

At December 31, 2015, the City reported an asset of \$104,466 for the Association's net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$19,969 for the year ended December 31, 2015. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	26,662	-
City Contributions Subsequent to the Measurement Date	5,000	-
Total	<u>\$ 31,662</u>	<u>\$ -</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

D. Pension Costs (Continued)

The City contributions to the Association subsequent to the measurement date, \$5,000 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 6,666
2017	6,666
2018	6,666
2019	6,664

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/2014
Actuarial Cost Method	Entry Age Normal Level Dollar
Amortization Method	Closed
 Actuarial Assumptions:	
Discount Rate	6.0%
Investment Rate of Return	6.0%
20-Year Municipal Bond Yield	3.5%
Age of Service Retirement	50

The best-estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best-estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Portfolio Weight</u>	<u>Expected Class Return</u>
Cash	22.0 %	2.0 %
Fixed Income	12.0	5.0
Equities	65.0	7.5
Other	<u>1.0</u>	6.0
Total Portfolio	<u><u>100.0 %</u></u>	6.0

F. Discount Rate

The discount rate used to measure the total pension liability was 6.00%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets 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 of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

G. Pension Asset Sensitivity

The following presents the City of Paynesville's proportionate share of the net pension asset of the Association, calculated using the discount rate of 6.00%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, 5.00%, or one percentage point higher, 7.00%, than the current rate:

	<u>1% Decrease</u>	<u>Selected Discount Rate</u>	<u>1% Increase</u>
Net Pension Asset	\$ 91,521	\$ 104,466	\$ 117,022
Discount Rate	5.00%	6.00%	7.00%

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

H. Plan's Fiduciary Net Position

Information about the Plan's fiduciary net position is as follows:

	December 31, 2014
Assets	
Cash	\$ 39,516
Certificates of Deposit	61,650
Mutual Funds	568,179
Total Assets	\$ 669,345
 Net Position	
Unrestricted	\$ 669,345
 Revenues	
Fire State Aid	\$ 28,938
State 10% Supplemental Reimbursement	8,000
Municipal Contribution	6,143
Membership Dues	145
Investment Earnings	13,437
Total Revenues	56,663
 Expenses	
Pension Distributions	82,205
Investment Expense	5,793
Administrative Expense	3,354
Total Expenses	91,352
Change in Net Position	(34,689)
Beginning Net Position	704,034
Ending Net Position	\$ 669,345

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN (CONTINUED)

H. Plan's Fiduciary Net Position (Continued)

Information about the changes in the Plan's net pension asset is as follows:

<u>Total Pension Asset</u>	
Service Cost	\$ 17,496
Interest	33,425
Differences Between Expected and Actual Experience	-
Changes in Assumptions	-
Changes in Benefit Terms	-
Benefit Payments, Including Member Refunds	(82,205)
Other Changes	-
Net Change in Total Pension Asset	<u>(31,284)</u>
Total Pension Asset - Beginning	<u>596,163</u>
Total Pension Asset - Ending (a)	564,879
<u>Plan Fiduciary Net Position</u>	
Municipal Contributions	6,143
State Contributions	37,083
Net Investment Income	7,644
Benefit Payments	(82,205)
Administrative Expenses	(3,354)
Other Changes	-
Net Change in Fiduciary Net Position	<u>(34,689)</u>
Fiduciary Net Position - Beginning	<u>704,034</u>
Fiduciary Net Position - Ending (b)	669,345
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u><u>\$ (104,466)</u></u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS

The City makes available to eligible retirees and their spouses a single-employer defined benefit healthcare plan. The plan offers medical coverage. The City contributes towards retired employee's health care benefits, contributing one year for every ten years of service. However, the City does not provide healthcare coverage for retired employees for any employees hired after August, 2007. Rather, it allows employees who separate from City employment due to retirement or disability, access to the coverage; however, that coverage is paid for at the former employees' expense.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in City's net OPEB obligation to the plan.

	Governmental Funds	Enterprise Funds	Total
Annual Required Contribution	\$ 3,142	\$ 1,133	\$ 4,275
Interest on Net OPEB Obligation	391	141	532
Adjustment to Annual Required Contribution	(555)	(200)	(755)
Annual OPEB Cost (Expense)	2,978	1,074	4,052
Contributions Made	-	-	-
Increase in Net OPEB Obligation	2,978	1,074	4,052
Net OPEB Obligation (Asset) - Beginning of Year	6,903	6,401	13,304
Net OPEB Obligation (Asset) - End of Year	<u>\$ 9,881</u>	<u>\$ 7,475</u>	<u>\$ 17,356</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending December 31, 2015 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 3,580	\$ -	\$ 9,786
December 31, 2014	3,518	-	13,304
December 31, 2015	4,052	-	17,356

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the City had no assets deposited to fund the plan. Therefore, the actuarial value of the assets is zero.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
1/1/2015	\$ -	\$ 34,732	\$ 34,732	- %	\$ 705,864	4.9%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date. The healthcare trend rate was 7.25 percent, reduced by decrements to an ultimate rate of 5 percent after nine years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at January 1, 2015 does not exceed 30 years.

NOTE 7 JOINTLY GOVERNED ORGANIZATION

The Paynesville Area Health Care System (the "System") operates under authority granted to it by Minnesota Statutes. The System operates under a joint powers type arrangement. The System is jointly governed by the following members: the Townships of Paynesville, Roseville, Union Grove and Zion and the Cities of Paynesville, Regal and St. Martin. Beginning in 2014 the System is being leased by CentraCare Health System and operating as CentraCare – Paynesville.

**CITY OF PAYNESVILLE, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015**

NOTE 8 RELATED ORGANIZATION

Paynesville Fire Department Relief Association

This Association is organized as a non-profit corporation by its members to provide pension and other benefits to such members in accordance with Minnesota Statutes. The Board of Trustees is elected by the membership of the organization and not by the City Council. All funding is conducted in accordance with Minnesota Statutes, whereby state aids flow to the Association, tax levies are requested 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 Stearns 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.

NOTE 9 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. Construction Commitments

At year-end, the City had the following outstanding construction commitments:

<u>Project Name</u>	<u>Total Contract</u>	<u>Spent to Date</u>	<u>Commitment</u>
Water Treatment Facility	\$ 3,128,700	\$ 3,108,700	\$ 20,000

B. Contingencies

The City, in connection with the normal conduct of its affairs, is involved in one pending claim against the City. The claim has been taken over by the League of Minnesota Cities, the City's insurance company. The League has indicated that the City has coverage for the claims alleged and, therefore, such claims will not materially affect the financial statements of the City.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 PRIOR PERIOD RESTATEMENT

During the year ended December 31, 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These pronouncements require the restatement of the December 31, 2014, net position of the governmental activities and the business-type activities as follows in the table below.

The City did not appropriately remove capital assets from the Sewer Fund and Business-Type Activities opinion units in 2014. These items had been disposed of in the prior year but not removed from the City’s capital asset records. The result of the prior period restatement decreased capital assets (net of accumulated depreciation) and net position in the Sewer Fund and business-type activities by \$217,118 from how the amounts were previously reported. The impact of these restatements is as follows:

	Net Position as Previously Stated	Cumulative Affect of Application of GASB 68 Net Pension Liability	Deferred Outflow of Resources for City Contributions Made to the Plans During Measurement Period (7/1/14 - 12/31/14)	Restatement Due to Capital Assets Disposed of in a Prior Year	Net Position As Restated
Governmental Activities	\$ 15,964,544	\$ (418,009)	\$ 40,122	\$ -	\$ 15,586,657
Business Type Activities	15,623,227	(196,496)	10,327	(217,118)	15,219,940
Water	4,533,722	(39,299)	2,065	-	4,496,488
Sewer	10,548,565	(68,001)	3,574	(217,118)	10,267,020
Liquor	540,940	(89,196)	4,688	-	456,432

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
PROPERTY TAXES	\$ 372,554	\$ 372,554	\$ 374,736	\$ 2,182
FRANCHISE TAXES	30,150	30,150	31,809	1,659
SPECIAL ASSESSMENTS	1,000	1,000	-	(1,000)
LICENSES AND PERMITS	190,425	190,425	196,073	5,648
INTERGOVERNMENTAL REVENUE				
Local Government Aid	721,338	721,338	721,343	5
Market Value Credit	-	-	5	5
PERA Aid	2,731	2,731	2,731	-
Fire Aid	33,500	33,500	42,539	9,039
Police Aid	26,000	26,000	31,902	5,902
Other Grants and Aids	27,674	27,674	35,153	7,479
Total Intergovernmental Revenue	811,243	811,243	833,673	22,430
CHARGES FOR SERVICES				
General Government	4,700	4,700	5,675	975
Public Safety	92,700	92,700	86,076	(6,624)
Public Works	5,400	5,400	5,243	(157)
Culture and Recreation	13,000	13,000	10,855	(2,145)
Airport	77,000	77,000	98,381	21,381
Total Charges for Services	192,800	192,800	206,230	13,430
FINES AND FORFEITURES	10,000	10,000	10,970	970
MISCELLANEOUS REVENUES				
Investment Income	15,000	15,000	22,809	7,809
Contributions and Donations	3,000	3,000	5,244	2,244
Reimbursements	42,350	42,350	7,677	(34,673)
Other	18,900	18,900	28,564	9,664
Total Miscellaneous Revenues	79,250	79,250	64,294	(14,956)
Total Revenues	1,687,422	1,687,422	1,717,785	30,363

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Mayor and Council	\$ 34,581	\$ 34,581	\$ 41,659	\$ (7,078)
Administrative and Finance	138,902	138,902	146,392	(7,490)
Other General Government	177,730	177,730	176,957	773
Capital Outlay	1,800	1,800	6,110	(4,310)
Total General Government	<u>353,013</u>	<u>353,013</u>	<u>371,118</u>	<u>(18,105)</u>
PUBLIC SAFETY				
Police				
Current	424,858	424,858	443,636	(18,778)
Capital Outlay	2,000	2,000	604	1,396
Fire				
Current	116,938	116,938	139,184	(22,246)
Capital Outlay	2,000	2,000	1,699	301
Other				
Current	112,397	112,397	65,610	46,787
Capital Outlay	6,650	6,650	6,641	9
Total Public Safety	<u>664,843</u>	<u>664,843</u>	<u>657,374</u>	<u>7,469</u>
PUBLIC WORKS				
Streets and Highways				
Street Maintenance and Storm Sewers	99,935	99,935	97,002	2,933
Snow and Ice Removal	63,448	63,448	46,928	16,520
Street Lighting	49,350	49,350	46,204	3,146
Street - Other Capital Outlay	2,250	2,250	1,672	578
Total Public Works	<u>214,983</u>	<u>214,983</u>	<u>191,806</u>	<u>23,177</u>
CULTURE AND RECREATION				
Libraries				
Current	8,027	8,027	6,271	1,756
Culture and Recreation				
Current	178,133	178,133	183,577	(5,444)
Capital Outlay	3,700	3,700	2,807	893
Total Culture and Recreation	<u>189,860</u>	<u>189,860</u>	<u>192,655</u>	<u>(2,795)</u>
AIRPORT				
Current	95,242	95,242	93,381	1,861
Capital Outlay	200	200	-	200
Total Airport	<u>95,442</u>	<u>95,442</u>	<u>93,381</u>	<u>2,061</u>
Total Expenditures	<u>1,518,141</u>	<u>1,518,141</u>	<u>1,506,334</u>	<u>11,807</u>

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	\$ 169,281	\$ 169,281	\$ 211,451	\$ 42,170
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	1,000	1,000	665	(335)
Transfers In	45,000	45,000	48,742	3,742
Transfers Out	(215,281)	(215,281)	(213,781)	1,500
Total Other Financing Sources (Uses)	(169,281)	(169,281)	(164,374)	4,907
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	47,077	<u>\$ 47,077</u>
Fund Balances - Beginning of Year			<u>1,581,074</u>	
FUND BALANCES - END OF YEAR			<u>\$ 1,628,151</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT AUTHORITY FUND
YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted</u>	<u>Amounts</u>	Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts	<u>Final Budget</u>
REVENUES				
INTERGOVERNMENTAL REVENUES				
Other Grants and Aids	\$ -	\$ -	\$ 16,000	\$ 16,000
MISCELLANEOUS REVENUES				
Investment Income	-	-	2,679	2,679
Reimbursements	-	-	2,548	2,548
Other	-	-	4,843	4,843
Total Miscellaneous Revenues	<u>-</u>	<u>-</u>	<u>10,070</u>	<u>10,070</u>
Total Revenues	-	-	26,070	26,070
EXPENDITURES				
ECONOMIC DEVELOPMENT				
Current	23,899	23,899	29,134	(5,235)
Capital Outlay	<u>5,000</u>	<u>5,000</u>	<u>2,008</u>	<u>2,992</u>
Total Expenditures	<u>28,899</u>	<u>28,899</u>	<u>31,142</u>	<u>(2,243)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(28,899)	(28,899)	(5,072)	23,827
OTHER FINANCING SOURCES				
Transfers In	<u>28,899</u>	<u>28,899</u>	<u>32,210</u>	<u>3,311</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	27,138	<u>\$ 27,138</u>
Fund Balances - Beginning of Year			<u>28,167</u>	
FUND BALANCES - END OF YEAR			<u>\$ 55,305</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PAYNESVILLE, MINNESOTA
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED DECEMBER 31, 2015**

I. BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to September 15 of each year, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. The City adopts the proposed budget as amended and adjusted by the Council and certifies the proposed property tax levy to the County Auditor according to Minnesota Statutes.
- b. Public hearings on the City's budget are conducted at the Council's Chambers at City Hall.
- c. On or before December 28, the final budget is legally enacted by Council resolution and the final property tax levy is certified to the County Auditor.
- d. Management is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are as originally adopted or amended by the City Council.
- e. The City has legally adopted budgets for the general fund and certain special revenue funds. The City also adopts budgets for the debt service fund, capital project fund, and enterprise funds. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services, supplies, miscellaneous services and charges, and capital outlay) within each program. All amounts over budget have been approved by the City Council through the disbursement process. The City is not legally required to adopt an annual budget for the capital projects. Project-length financial plans are adopted for the capital projects funds.
- f. Budgets for the general, certain special revenue funds, and the debt service fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.

I. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded budgeted amounts in the following fund:

	Expenditures	Budget	Excess
Economic Development Authority Fund	\$ 31,142	\$ 28,899	\$ 2,243

The above overage in the Economic Development Authority Fund was financed by the prior sale of a plot in Opportunity Park and existing fund balance.

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULES OF FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2015**

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
1/1/2015	\$ -	\$ 34,732	\$ 34,732	- %	\$ 705,864	4.9%
1/1/2012	-	28,459	28,459	0.0%	554,634	5.1%
1/1/2009	-	45,768	45,768	0.0%	673,408	6.8%

**CITY OF PAYNESVILLE, MINNESOTA
CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2015**

	Measurement Date <u>June 30, 2015</u>
GERF	
City's Proportion of the Net Pension Liability	0.010%
City's Proportionate Share of the Net Pension Liability	\$ 316,134
City's Covered-Employee Payroll	\$ 562,857
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	56.17%
Plan Fiduciary Net Position as a Percentage of the total Net Pension Liability	78.20%
 PEPFF	
City's Proportion of the Net Pension Liability	0.029%
City's Proportionate Share of the Net Pension Liability	\$ 327,235
City's Covered-Employee Payroll	\$ 264,202
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	123.86%
Plan Fiduciary Net Position as a Percentage of the total Net Pension Liability	86.60%

**CITY OF PAYNESVILLE, MINNESOTA
CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET
FIREFIGHTERS RELIEF ASSOCIATION PLAN
YEAR ENDED DECEMBER 31, 2015**

Fire Relief Association Plan	<u>Measurement Date December 31, 2014</u>
<u>Total Pension Asset</u>	
Service Cost	\$ 17,496
Interest	33,425
Benefit Payments, Including Member Refunds	<u>(82,205)</u>
Net Change in Total Pension Asset	(31,284)
Total Pension Asset - Beginning	<u>596,163</u>
Total Pension Asset - Ending (a)	564,879
<u>Plan Fiduciary Net Position</u>	
Municipal Contributions	6,143
State Contributions	37,083
Net Investment Income	7,644
Benefit Payments	(82,205)
Administrative Expenses	(3,354)
Other Changes	<u>-</u>
Net Change in Fiduciary Net Position	(34,689)
Fiduciary Net Position - Beginning	<u>704,034</u>
Fiduciary Net Position - Ending (b)	669,345
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (104,466)</u>
Fiduciary Net Position as a Percentage of the Total Pension Asset	118.49%
Covered-Employee Payroll	N/A
Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	N/A

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
LAST TWO FISCAL YEARS**

	<u>2015</u>	<u>2014</u>
GERF		
Contractually Required Contribution	\$ 41,758	\$ 39,716
Contributions in Relation to the Contractually Required Contribution	<u>(41,758)</u>	<u>(39,716)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 556,800	\$ 547,807
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.25%
PEPFF		
Contractually Required Contribution	\$ 42,715	\$ 39,005
Contributions in Relation to the Contractually Required Contribution	<u>(42,715)</u>	<u>(39,005)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 263,673	\$ 254,935
Contributions as a Percentage of Covered Employee Payroll	16.20%	15.30%
FIRE RELIEF ASSOCIATION PLAN		
Statutorily Required Contribution	\$ -	\$ 6,143
Contributions in Relation to the Statutorily Required Contribution	<u>5,000</u>	<u>6,143</u>
Contribution Deficiency (Excess)	<u>\$ (5,000)</u>	<u>\$ -</u>

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OTHER SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	Police Drug/DWI Forfeiture 205	Tax Increment Development District No. 1 255	Tax Increment Financing District No. 1-10 270	Tax Increment Financing District No. 1-11 272	Tax Increment Financing District No. 1-12 273	Tax Increment Financing District No. 1-13 274	Tax Increment Financing District No. 1-14 275	Tax Increment Financing District No. 1-15 276	Total Nonmajor Funds
ASSETS									
Cash and Investments	\$ 5,698	\$ 9,247	\$ 5,824	\$ 4,141	\$ 9,193	\$ 20,463	\$ 111	\$ 347	\$ 55,024
LIABILITIES									
Accounts Payable	\$ -	\$ 9,235	\$ -	\$ 3,561	\$ 8,281	\$ 18,906	\$ -	\$ -	\$ 39,983
Due to Other Funds	-	-	-	-	-	-	500	500	1,000
Total Liabilities	-	9,235	-	3,561	8,281	18,906	500	500	40,983
FUND BALANCES (DEFICITS)									
Restricted	5,698	12	5,824	580	912	1,557	-	-	14,583
Unassigned	-	-	-	-	-	-	(389)	(153)	(542)
Total Fund Balances (Deficits)	5,698	12	5,824	580	912	1,557	(389)	(153)	14,041
Total Liabilities and Fund Balance	\$ 5,698	\$ 9,247	\$ 5,824	\$ 4,141	\$ 9,193	\$ 20,463	\$ 111	\$ 347	\$ 55,024

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2015**

	Police Drug/DWI Forfeiture 205	Tax Increment Development District No. 1 255	Tax Increment Financing District No. 1-10 270	Tax Increment Financing District No. 1-11 272	Tax Increment Financing District No. 1-12 273	Tax Increment Financing District No. 1-13 274	Tax Increment Financing District No. 1-14 275	Tax Increment Financing District No. 1-15 276	Total Nonmajor Funds
REVENUES									
Tax Increments	\$ -	\$ 18,469	\$ 5,772	\$ 7,496	\$ 17,393	\$ 39,672	\$ -	\$ -	\$ 88,802
Fines and Forfeitures	207	-	-	-	-	-	-	-	207
Miscellaneous									
Investment Income	87	82	52	19	45	83	2	6	376
Total Revenues	294	18,551	5,824	7,515	17,438	39,755	2	6	89,385
EXPENDITURES									
CURRENT									
Public Safety	62	-	-	-	-	-	-	-	62
Economic Development	-	18,469	-	7,126	16,603	37,768	-	-	79,966
Total Expenditures	62	18,469	-	7,126	16,603	37,768	-	-	80,028
EXCESS OF REVENUES OVER EXPENDITURES	232	82	5,824	389	835	1,987	2	6	9,357
OTHER FINANCING SOURCES (USES)									
Transfers Out	-	(3,742)	-	-	-	-	-	-	(3,742)
NET CHANGE IN FUND BALANCES	232	(3,660)	5,824	389	835	1,987	2	6	5,615
Fund Balances (Deficit) - Beginning of Year	5,466	3,672	-	191	77	(430)	(391)	(159)	8,426
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 5,698	\$ 12	\$ 5,824	\$ 580	\$ 912	\$ 1,557	\$ (389)	\$ (153)	\$ 14,041

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUND
DECEMBER 31, 2015**

	2006 Improvements Debt 520	2008 Improvements Debt 535	2010 G.O. Improvement Bonds, Series A 545	2010 G.O. Improvement Bonds, Series B 555	2010 G.O. Improvement Bonds, Series C 585	2014 Improvements Debt 522	Total Debt Service Fund
ASSETS							
Cash and Investments	\$ 52,212	\$ 142,078	\$ 64,676	\$ 116,240	\$ 96,560	\$ 75,517	\$ 547,283
Special Assessments Receivable							
Delinquent	3,430	271	898	-	119	675	5,393
Noncurrent	146,813	46,789	139,458	-	1,700	124,401	459,161
Due From Other Governments	96	961	909	-	-	-	1,966
Total Assets	\$ 202,551	\$ 190,099	\$ 205,941	\$ 116,240	\$ 98,379	\$ 200,593	\$ 1,013,803
DEFERRED INFLOWS OF RESOURCES							
Unavailable Special Assessments	\$ 150,243	\$ 47,060	\$ 140,356	\$ -	\$ 1,819	\$ 125,076	\$ 464,554
FUND BALANCES							
Restricted for Debt Service	52,308	143,039	65,585	116,240	96,560	75,517	549,249
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 202,551	\$ 190,099	\$ 205,941	\$ 116,240	\$ 98,379	\$ 200,593	\$ 1,013,803

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
DEBT SERVICE FUND
DECEMBER 31, 2015**

	2006 Improvements Debt 520	2008 Improvements Debt 535	2010 G.O. Improvement Bonds, Series A 545	2010 G.O. Improvement Bonds, Series B 555	2010 G.O. Crossover Refunding Series C 585	2014 Improvements Debt 522	Total Debt Service Fund
REVENUES							
Property Taxes	\$ -	\$ 83,000	\$ 54,000	\$ 34,500	\$ 7,800	\$ 29,500	\$ 208,800
Special Assessments	20,979	13,460	25,496	-	836	48,209	108,980
Miscellaneous							
Investment Income	1,618	3,012	1,470	1,803	2,319	1,397	11,619
Reimbursements	-	-	-	77,271	-	-	77,271
Total Revenues	<u>22,597</u>	<u>99,472</u>	<u>80,966</u>	<u>113,574</u>	<u>10,955</u>	<u>79,106</u>	<u>406,670</u>
EXPENDITURES							
DEBT SERVICE							
Principal	85,000	140,000	100,000	65,000	75,000	80,000	545,000
Interest and Other Charges	5,425	21,510	19,623	12,983	5,295	13,115	77,951
Total Expenditures	<u>90,425</u>	<u>161,510</u>	<u>119,623</u>	<u>77,983</u>	<u>80,295</u>	<u>93,115</u>	<u>622,951</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(67,828)	(62,038)	(38,657)	35,591	(69,340)	(14,009)	(216,281)
OTHER FINANCING SOURCES							
Transfers In	<u>22,500</u>	<u>46,500</u>	<u>27,250</u>	<u>50,000</u>	<u>34,000</u>	<u>24,500</u>	<u>204,750</u>
NET CHANGE IN FUND BALANCES	(45,328)	(15,538)	(11,407)	85,591	(35,340)	10,491	(11,531)
Fund Balances - Beginning of Year	<u>97,636</u>	<u>158,577</u>	<u>76,992</u>	<u>30,649</u>	<u>131,900</u>	<u>65,026</u>	<u>560,780</u>
FUND BALANCES - END OF YEAR	<u>\$ 52,308</u>	<u>\$ 143,039</u>	<u>\$ 65,585</u>	<u>\$ 116,240</u>	<u>\$ 96,560</u>	<u>\$ 75,517</u>	<u>\$ 549,249</u>

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
CAPITAL PROJECT FUND
DECEMBER 31, 2015**

	Street and Sidewalk Improvements 120	General Improvements 121	Police Improvements 122	Park Improvements 123	Emergency Services Improvements 124
ASSETS					
Cash and Investments	\$ 482,494	\$ 5,994	\$ 41,953	\$ 67,966	\$ 41,811
Special Assessments Receivable:					
Noncurrent	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Advances to Other Funds	-	-	-	-	-
Total Assets	\$ 482,494	\$ 5,994	\$ 41,953	\$ 67,966	\$ 41,811
LIABILITIES					
Accounts Payable	\$ -	\$ 475	\$ -	\$ -	\$ -
Advances from Other Funds	-	-	-	-	-
Total Liabilities	-	475	-	-	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable Special Assessments	-	-	-	-	-
FUND BALANCES (DEFICIT)					
Restricted for Capital Projects	-	-	-	-	-
Committed for Capital Projects	482,494	5,519	41,953	67,966	41,811
Unassigned	-	-	-	-	-
Total Fund Balances	482,494	5,519	41,953	67,966	41,811
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 482,494	\$ 5,994	\$ 41,953	\$ 67,966	\$ 41,811

Airport Capital Improvements 125	Fire Department Capital Improvements 126, 225	Lake Koronis Recreation Trail 127	Park Dedication 129	Airport Hangar 455	2015 Improvements 518	2014 Improvements 521	2008 Improvements 530
\$ 113,753	\$ 669,693	\$ 18,555	\$ 22,395	\$ (86)	\$ 95,338	\$ 5,959	\$ 124,849
-	-	-	1,508	-	-	-	-
-	-	-	-	42,074	-	-	-
54,400	-	-	-	-	-	-	-
<u>\$ 168,153</u>	<u>\$ 669,693</u>	<u>\$ 18,555</u>	<u>\$ 23,903</u>	<u>\$ 41,988</u>	<u>\$ 95,338</u>	<u>\$ 5,959</u>	<u>\$ 124,849</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,193	\$ 34,061	\$ -
-	-	-	-	54,400	-	-	-
-	-	-	-	54,400	21,193	34,061	-
-	-	-	1,508	-	-	-	-
-	-	18,555	22,395	-	74,145	-	124,849
168,153	669,693	-	-	-	-	-	-
-	-	-	-	(12,412)	-	(28,102)	-
<u>168,153</u>	<u>669,693</u>	<u>18,555</u>	<u>22,395</u>	<u>(12,412)</u>	<u>74,145</u>	<u>(28,102)</u>	<u>124,849</u>
<u>\$ 168,153</u>	<u>\$ 669,693</u>	<u>\$ 18,555</u>	<u>\$ 23,903</u>	<u>\$ 41,988</u>	<u>\$ 95,338</u>	<u>\$ 5,959</u>	<u>\$ 124,849</u>

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**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET (CONTINUED)
 CAPITAL PROJECT FUND
 DECEMBER 31, 2015**

	Heatherwood Plat Three 525	Highway 23 Construction 550	Intrafund Activity	Total Capital Project Fund
ASSETS				
Cash and Investments	\$ 98,710	\$ 11,469	\$ -	\$ 1,800,853
Special Assessments Receivable:				
Noncurrent	382,215	-	-	383,723
Due from Other Governments	-	-	-	42,074
Advances to Other Funds	-	-	(54,400)	-
	\$ 480,925	\$ 11,469	\$ (54,400)	\$ 2,226,650
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ 55,729
Advances from Other Funds	-	30,000	(54,400)	30,000
	-	30,000	(54,400)	85,729
DEFERRED INFLOWS OF RESOURCES				
Unavailable Special Assessments	382,215	-	-	383,723
FUND BALANCES (DEFICIT)				
Restricted for Capital Projects	-	-	-	239,944
Committed for Capital Projects	98,710	-	(59,045)	1,517,254
Unassigned	-	(18,531)	59,045	-
	98,710	(18,531)	-	1,757,198
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 480,925	\$ 11,469	\$ (54,400)	\$ 2,226,650

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
CAPITAL PROJECT FUND
YEAR ENDED DECEMBER 31, 2015**

	Street and Sidewalk Improvements 120	General Improvements 121	Police Improvements 122	Park Improvements 123	Emergency Services Improvements 124
REVENUES					
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous					
Investment Income	9,850	743	936	1,526	734
Contributions and Donations	-	-	-	22,518	-
Reimbursements	14,332	-	-	-	-
Other	-	1,450	-	-	-
Total Revenues	<u>24,182</u>	<u>2,193</u>	<u>936</u>	<u>24,044</u>	<u>734</u>
EXPENDITURES					
CURRENT					
General Government	-	16,989	-	-	-
Public Works	-	-	-	-	-
Culture and Recreation	-	-	-	18,345	-
Airport	-	-	-	-	-
CAPITAL OUTLAY					
General Government	-	116,426	-	-	-
Public Safety	-	-	39,131	-	-
Public Works	187,344	-	-	-	-
Culture and Recreation	-	-	-	77,062	-
Airport	-	-	-	-	-
Total Expenditures	<u>187,344</u>	<u>133,415</u>	<u>39,131</u>	<u>95,407</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(163,162)	(131,222)	(38,195)	(71,363)	734
OTHER FINANCING SOURCES (USES)					
Transfers In	82,882	9,000	11,500	18,000	1,000
Transfers Out	(40,000)	-	-	-	-
Total Other Financing Sources (Uses)	<u>42,882</u>	<u>9,000</u>	<u>11,500</u>	<u>18,000</u>	<u>1,000</u>
NET CHANGE IN FUND BALANCES	(120,280)	(122,222)	(26,695)	(53,363)	1,734
Fund Balances (Deficit) - Beginning of Year	<u>602,774</u>	<u>127,741</u>	<u>68,648</u>	<u>121,329</u>	<u>40,077</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 482,494</u>	<u>\$ 5,519</u>	<u>\$ 41,953</u>	<u>\$ 67,966</u>	<u>\$ 41,811</u>

Airport Capital Improvements 125	Fire Department Capital Improvements 225	Lake Koronis Recreation Trail 127	Park Dedication 129	Airport Hangar 455	2015 Improvements 518	2014 Improvements 521	2008 Improvements 530
\$ -	\$ -	\$ -	\$ -	\$ 42,074	\$ 35,280	\$ -	\$ -
1,877	13,031	1,574	398	469	668	714	2,219
-	-	-	-	-	-	-	-
-	522	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,877</u>	<u>13,553</u>	<u>1,574</u>	<u>398</u>	<u>42,543</u>	<u>35,948</u>	<u>714</u>	<u>2,219</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	463	16,989	-
-	-	28,956	-	-	-	-	-
-	-	-	-	4,015	-	-	-
-	-	-	-	-	-	-	-
-	10,688	-	-	-	-	-	-
-	-	-	-	-	79,541	35,959	-
-	-	57,689	-	-	-	-	-
-	-	-	-	50,410	-	-	-
<u>-</u>	<u>10,688</u>	<u>86,645</u>	<u>-</u>	<u>54,425</u>	<u>80,004</u>	<u>52,948</u>	<u>-</u>
1,877	2,865	(85,071)	398	(11,882)	(44,056)	(52,234)	2,219
15,000	40,000	7,500	-	-	120,000	-	-
-	-	-	-	-	-	-	-
<u>15,000</u>	<u>40,000</u>	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>120,000</u>	<u>-</u>	<u>-</u>
16,877	42,865	(77,571)	398	(11,882)	75,944	(52,234)	2,219
151,276	626,828	96,126	21,997	(530)	(1,799)	24,132	122,630
<u>\$ 168,153</u>	<u>\$ 669,693</u>	<u>\$ 18,555</u>	<u>\$ 22,395</u>	<u>\$ (12,412)</u>	<u>\$ 74,145</u>	<u>\$ (28,102)</u>	<u>\$ 124,849</u>

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**CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (CONTINUED)
CAPITAL PROJECT FUND
YEAR ENDED DECEMBER 31, 2015**

	Heatherwood Plat Three 525	Highway 23 Construction 550	Intrafund Activity	Total Capital Project Fund
REVENUES				
Intergovernmental	\$ -	\$ -	\$ -	\$ 77,354
Miscellaneous				
Investment Income	1,754	204	-	36,697
Contributions and Donations	-	-	-	22,518
Reimbursements	-	-	-	14,854
Other	-	-	-	1,450
Total Revenues	<u>1,754</u>	<u>204</u>	<u>-</u>	<u>152,873</u>
EXPENDITURES				
CURRENT				
General Government	-	-	-	16,989
Public Works	-	-	-	17,452
Culture and Recreation	-	-	-	47,301
Airport	-	-	-	4,015
CAPITAL OUTLAY				
General Government	-	-	-	116,426
Public Safety	-	-	-	49,819
Public Works	-	-	-	302,844
Culture and Recreation	-	-	-	134,751
Airport	-	-	-	50,410
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>740,007</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,754	204	-	(587,134)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	(40,000)	264,882
Transfers Out	-	-	40,000	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>264,882</u>
NET CHANGE IN FUND BALANCES	1,754	204	-	(322,252)
Fund Balances (Deficit) - Beginning of Year	<u>96,956</u>	<u>(18,735)</u>	<u>-</u>	<u>2,079,450</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 98,710</u>	<u>\$ (18,531)</u>	<u>\$ -</u>	<u>\$ 1,757,198</u>

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REPORTS RELATING TO *GOVERNMENT AUDITING STANDARDS*



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

Honorable Mayor and
Members of the City Council
City of Paynesville
Paynesville, Minnesota

We have audited, in accordance with the 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 Paynesville (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 11, 2016.

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 of Paynesville'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. However, as described in the accompanying schedule of findings and recommendations we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 consider the deficiencies 2015-001 to 2015-005 described in the accompanying schedule of findings and recommendations to be material weaknesses.

Compliance and Other Matters

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

City of Paynesville's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The City's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.



CliftonLarsonAllen LLP

Alexandria, Minnesota
April 11, 2016

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**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2015**

MATERIAL WEAKNESSES

2015-001 Internal Control over the Financial Reporting Process

Condition: The City does not have internal control procedures in place over the annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP).

Effect: The City may not be able to prevent or detect material misstatements in the financial reporting process.

Cause: Limited resources at the City.

Recommendation: We recommend that the City be aware of the requirements for fair presentation of the financial statements in accordance with Governmental Accounting Standards Board Statement No. 34. Should the City elect, based upon an analysis of costs and benefits, to establish a full oversight of the financial statement preparation of an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytical procedures to the draft financial statements; and perform other procedures considered necessary by management.

Management Response: Due to the small size of the City's staff and the additional costs necessary to ensure proper controls are in place, the City has decided that the costs of preparing the City's financial statements outweigh the benefits that would be derived. Nevertheless, the City is continually reviewing the situation and establishes controls that the City believes will aid in the fair presentation of the financial statements without significant increases in the costs of implementing those controls.

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

MATERIAL WEAKNESSES (CONTINUED)

2015-002 Limited Segregation of Duties

Condition: Adequate segregation of duties of the accounting functions necessary to ensure adequate internal accounting control, is not in place.

Criteria: City management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the City. In addition, City management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Effect: The design of internal controls over financial reporting could affect the ability of the City to record, process, summarize, and report financial data consistently with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the City's inability to prevent/detect misappropriation of assets.

Cause: Limited resources at the City.

Recommendation: We recommend City management be consistently aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by City staff.

Management Response: The City will continue to review the accounting functions and segregate them as feasible with the limited number of staff available.

2015-003 Material Audit Adjustments

Condition: As part of the audit, we proposed material audit adjustments to reclassify bond proceeds and payables for the PFA notes, record accrued interest payable, net pension liability, other postemployment benefits payable, and adjust capital asset balances.

Criteria: The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

Effect: The design of the internal controls over recording adjusting entries could affect the City's ability to detect or prevent material misstatements.

Cause: Limited resources at the City and implementation of a new accounting standard.

Recommendation: We recommend City management be consistently aware of all procedures and processes involved in recording transactions and accruals and develop internal control policies to ensure proper recording of these items.

Management Response: The City will continue to work at eliminating the need for audit adjustments.

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

MATERIAL WEAKNESSES (CONTINUED)

2015-004 Timeliness of PERA Contributions

Condition: During audit procedures performed, it was noted that the City did not remit the February 19, 2015 through October 1, 2015 payroll contributions until October 2015 for both the coordinated and the police and fire retirement plans. This is 17 pay periods during 2015 for which the member and the City'd contributions were not made timely.

Criteria: The City should have controls in place relating to payroll withholdings and benefits to ensure timely remittance to the vendor on the employees' behalf.

Effect: The City incurred penalties and late fees as a result of this late payment. In addition, the city's calculated proportionate share of the net pension liability is materially understated, as it is based on contributions made within the measurement date of July 1, 2014 to June 30, 2015.

Cause: The City was short one staff member in the finance/administration department.

Recommendation: We recommend City management review their payroll procedures to ensure that all withholdings and benefits are paid in a timely manner.

Management Response: The City will ensure timely contributions going forward.

2015-005 Internal Controls over Capital Asset Records

Condition: During year-end procedures for 2015, the City discovered 28 assets on record that should have been disposed of in prior years, with a historical cost of over \$1.2 million.

Criteria: The City should have controls in place to ensure the master capital asset listing is updated timely and provides an accurate listing of the assets the city owns as of each year-end.

Effect: A prior period restatement, as described in Note 10, is reported in the financial statements for the Sewer Fund and Business-Type Activities. In addition, there is a potential that the city's asset records for insurance and financial reporting purposes could contain inaccurate information.

Cause: The city had a large project to improve their wastewater treatment facility. When that new asset was capitalized in 2014 many of the old assets that were replaced were not removed from the asset records.

Recommendation: We recommend City management develop policies and procedures to ensure accuracy of their capital asset records on an ongoing basis.

Management Response: The City will review their procedures and update them to provide emphasis that all departments review the listing for accuracy each year.

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of Paynesville
Paynesville, Minnesota

We have audited, in accordance with the 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 City of Paynesville (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 11, 2016.

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 Paynesville, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Paynesville's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Alexandria, Minnesota
April 11, 2016

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