

CITY OF WOODLAND
WOODLAND, MINNESOTA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2015

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ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

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CITY OF WOODLAND, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2015

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires December 31,</u>
James Doak	Mayor	2016
Sliv Carlson	Council Member	2016
Tom Newberry	Council Member	2016
John Massie	Council Member	2019
Elizabeth Weiner	Council Member	2019

APPOINTED

Kathy McCullum	City Clerk
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FINANCIAL SECTION

**CITY OF WOODLAND
WOODLAND, MINNESOTA**

**FOR THE YEAR ENDED
DECEMBER 31, 2015**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Woodland, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Woodland, Minnesota (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 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 the financial reporting provisions of the Minnesota Office of the State Auditor. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2014 financial statements and, in our report dated February 23, 2015, we expressed unmodified opinions on the respective proprietary fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis of Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1B, the financial statements are prepared by the City on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Minnesota Office of the State Auditor. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis of Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City, as of December 31, 2015, and the changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

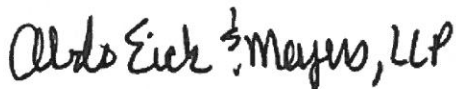
In our opinion, the financial statements of the governmental funds referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the City, as of December 31, 2015, and their respective cash receipts and disbursements, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B. Also, in our opinion, the financial statements of the proprietary funds referred to in the first paragraph present fairly, in all material respects, the respective financial position of each fund of the City, as of December 31, 2015, and their respective changes in financial position and cash flows, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B.

Other Information

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

The combining and individual fund financial schedules 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 fund financial schedules are fairly stated in all material respects in relation to the basic financial statements on the regulatory basis financial statements as a whole.

The introductory section and supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
February 17, 2016

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BASIC FINANCIAL STATEMENTS - REGULATORY BASIS

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

CITY OF WOODLAND, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Street Improvement	Total
ASSETS			
Cash and temporary investments	<u>\$ 266,983</u>	<u>\$ 158,765</u>	<u>\$ 425,748</u>
CASH FUND BALANCES			
Assigned for street improvement	\$ -	\$ 158,765	\$ 158,765
Unassigned	<u>266,983</u>	<u>-</u>	<u>266,983</u>
TOTAL CASH FUND BALANCES	<u>\$ 266,983</u>	<u>\$ 158,765</u>	<u>\$ 425,748</u>

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

CITY OF WOODLAND, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General	Street Improvement	Governmental Funds
RECEIPTS			
Taxes	\$ 345,091	\$ -	\$ 345,091
Licenses and permits	67,099	-	67,099
Intergovernmental	1,851	17,128	18,979
Charges for services	4,525	-	4,525
Fines and forfeitures	1,913	-	1,913
Interest on investments	239	78	317
Miscellaneous	4,349	-	4,349
TOTAL RECEIPTS	425,067	17,206	442,273
DISBURSEMENTS			
Current			
General government	74,667	-	74,667
Public safety	126,870	-	126,870
Public works	59,797	100,888	160,685
Miscellaneous	10,049	-	10,049
TOTAL DISBURSEMENTS	271,383	100,888	372,271
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	153,684	(83,682)	70,002
OTHER FINANCING SOURCES (USES)			
Transfers in	-	153,684	153,684
Transfers out	(153,684)	-	(153,684)
TOTAL OTHER FINANCING SOURCES (USES)	(153,684)	153,684	-
NET CHANGE IN CASH FUND BALANCES	-	70,002	70,002
CASH FUND BALANCES, JANUARY 1	266,983	88,763	355,746
CASH FUND BALANCES, DECEMBER 31	\$ 266,983	\$ 158,765	\$ 425,748

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

CITY OF WOODLAND, MINNESOTA
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015 AND 2014

	Business-type Activities - Enterprise Funds	
	601	
	Water	
	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 34,499	\$ 33,255
Receivables		
Accounts	7,635	8,378
Special assessments		
Delinquent	2,065	324
Current	7,650	7,650
TOTAL CURRENT ASSETS	51,849	49,607
NONCURRENT ASSETS		
Special assessments receivable	7,650	15,300
Capital assets		
Infrastructure	194,539	194,539
Less accumulated depreciation	(87,700)	(82,800)
Total capital assets (net of accumulated depreciation)	106,839	111,739
TOTAL NONCURRENT ASSETS	114,489	127,039
TOTAL ASSETS	166,338	176,646
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	3,506	2,175
Accrued interest payable	879	1,172
Current portion of bonds payable	12,500	12,500
TOTAL CURRENT LIABILITIES	16,885	15,847
LONG-TERM LIABILITIES		
Bonds payable	25,000	37,500
TOTAL LIABILITIES	41,885	53,347
NET POSITION		
Net investment in capital assets	69,339	61,739
Restricted for debt service	40,215	41,826
Unrestricted	14,899	19,734
TOTAL NET POSITION	\$ 124,453	\$ 123,299

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

Business-type Activities -
Enterprise Funds

602			
Sewer		Totals	
2015	2014	2015	2014
\$ 104,771	\$ 119,177	\$ 139,270	\$ 152,432
10,827	10,781	18,462	19,159
887	293	2,952	617
2,550	2,550	10,200	10,200
119,035	132,801	170,884	182,408
2,550	5,100	10,200	20,400
697,666	697,666	892,205	892,205
(254,300)	(240,300)	(342,000)	(323,100)
443,366	457,366	550,205	569,105
445,916	462,466	560,405	589,505
564,951	595,267	731,289	771,913
4,455	4,103	7,961	6,278
1,021	1,350	1,900	2,522
36,201	35,285	48,701	47,785
41,677	40,738	58,562	56,585
73,510	109,711	98,510	147,211
115,187	150,449	157,072	203,796
333,655	312,370	402,994	374,109
4,241	27,520	44,456	69,346
111,868	104,928	126,767	124,662
\$ 449,764	\$ 444,818	\$ 574,217	\$ 568,117

CITY OF WOODLAND, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Business-type Activities - Enterprise Funds	
	601	
	Water	
	2015	2014
OPERATING REVENUES		
Charges for services	\$ 31,156	\$ 38,645
OPERATING EXPENSES		
Professional services	13,744	4,090
Utilities	10,919	8,223
Depreciation	4,900	4,900
TOTAL OPERATING EXPENSES	29,563	17,213
OPERATING INCOME	1,593	21,432
NONOPERATING EXPENSES		
Special assessments	1,703	1,855
Interest income	26	18
Interest expense	(2,168)	(2,871)
TOTAL NONOPERATING EXPENSES	(439)	(998)
CHANGE IN NET POSITION	1,154	20,434
NET POSITION, JANUARY 1	123,299	102,865
NET POSITION, DECEMBER 31	\$ 124,453	\$ 123,299

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

Business-type Activities -
Enterprise Funds

602			
Sewer		Totals	
2015	2014	2015	2014
<u>\$ 38,942</u>	<u>\$ 39,414</u>	<u>\$ 70,098</u>	<u>\$ 78,059</u>
652	57	14,396	4,147
16,769	17,116	27,688	25,339
<u>14,000</u>	<u>14,000</u>	<u>18,900</u>	<u>18,900</u>
<u>31,421</u>	<u>31,173</u>	<u>60,984</u>	<u>48,386</u>
<u>7,521</u>	<u>8,241</u>	<u>9,114</u>	<u>29,673</u>
520	618	2,223	2,473
91	92	117	110
<u>(3,186)</u>	<u>(4,088)</u>	<u>(5,354)</u>	<u>(6,959)</u>
<u>(2,575)</u>	<u>(3,378)</u>	<u>(3,014)</u>	<u>(4,376)</u>
4,946	4,863	6,100	25,297
<u>444,818</u>	<u>439,955</u>	<u>568,117</u>	<u>542,820</u>
<u><u>\$ 449,764</u></u>	<u><u>\$ 444,818</u></u>	<u><u>\$ 574,217</u></u>	<u><u>\$ 568,117</u></u>

CITY OF WOODLAND, MINNESOTA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Business-type Activities Enterprise Funds	
	601	
	Water	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users		
City of Minnetonka usage charges	\$ 9,503	\$ 9,752
User fee revenue	3,971	4,759
Maintenance fee revenue	15,377	23,312
Delinquent utility revenue	1,307	27
Payments to suppliers		
Remittance to City of Minnetonka	(9,588)	(8,582)
Maintenance and other expenses	(13,744)	(4,090)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,826	25,178
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Collection of special assessments	9,353	9,226
Interest paid on bonds	(2,461)	(3,164)
Principal paid on bonds	(12,500)	(12,500)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(5,608)	(6,438)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	26	18
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,244	18,758
CASH AND CASH EQUIVALENTS, JANUARY 1	33,255	14,497
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 34,499	\$ 33,255

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

Business-type Activities -
Enterprise Funds

602			
Sewer		Totals	
2015	2014	2015	2014
\$ 16,052	\$ 17,030	\$ 25,555	\$ 26,782
12,360	12,330	16,331	17,089
9,175	8,933	24,552	32,245
715	137	2,022	164
(16,417)	(16,626)	(26,005)	(25,208)
(652)	(57)	(14,396)	(4,147)
21,233	21,747	28,059	46,925
3,070	3,075	12,423	12,301
(3,515)	(4,408)	(5,976)	(7,572)
(35,285)	(34,392)	(47,785)	(46,892)
(35,730)	(35,725)	(41,338)	(42,163)
91	92	117	110
(14,406)	(13,886)	(13,162)	4,872
119,177	133,063	152,432	147,560
<u>\$ 104,771</u>	<u>\$ 119,177</u>	<u>\$ 139,270</u>	<u>\$ 152,432</u>

CITY OF WOODLAND, MINNESOTA
 STATEMENTS OF CASH FLOWS - CONTINUED
 PROPRIETARY FUNDS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Business-type Activities Enterprise Funds	
	601	
	Water	
	2015	2014
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,593	\$ 21,432
Adjustments to reconcile operating income		
to net cash provided by operating activities		
Depreciation	4,900	4,900
(Increase) decrease in assets		
Receivables		
Accounts	743	(1,036)
Delinquent special assessments	(1,741)	241
Increase (decrease) in liabilities		
Accounts payable	1,331	(359)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 6,826</u>	<u>\$ 25,178</u>

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

Business-type Activities -
Enterprise Funds

602			
Sewer		Totals	
2015	2014	2015	2014
\$ 7,521	\$ 8,241	\$ 9,114	\$ 29,673
14,000	14,000	18,900	18,900
(46)	(1,809)	697	(2,845)
(594)	825	(2,335)	1,066
352	490	1,683	131
<u>\$ 21,233</u>	<u>\$ 21,747</u>	<u>\$ 28,059</u>	<u>\$ 46,925</u>

CITY OF WOODLAND, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

ASSETS	<u>Agency</u>
Cash and temporary investments	<u>\$ 41,550</u>
LIABILITIES	
Deposits payable	<u>\$ 41,550</u>

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

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Woodland, Minnesota (the City) operates under "Optional Plan A" form of government as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and four-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

B. Measurement focus, basis of accounting and basis of presentation

The accompanying financial statements have been prepared on the regulatory basis of accounting as described in the Minnesota Office of the State Auditor's Reporting and Publishing Requirements for Cities under 2,500 in population published on December 17, 2004. Under that basis, governmental fund receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles in the United States of America (GAAP) primarily because the City has not provided a management discussion and analysis letter, government-wide statement of net position and government-wide statement of activities and the City does not recognize governmental fund receipts and disbursements in accordance with the modified accrual basis of accounting.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

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

Governmental funds are used to account for the City's general government activities and are accounted for using the regulatory basis of accounting. Their revenue is recognized when received in cash and expenditures are recognized when paid in cash. The regulatory basis of accounting is a comprehensive basis of accounting other than GAAP. Under GAAP, governmental funds use the modified accrual method of accounting. The difference between the regulatory basis and modified accrual basis of accounting is that under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On the regulatory basis, receipts from property taxes are recognized in the year the tax is collected. Receipts from grants, entitlements and donations are recognized in the year in which they are collected. For proprietary funds, revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

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

The *Street Improvement fund* accounts for future street improvement projects.

The City reports the following major proprietary funds:

The *Water fund* accounts for costs associated with the City's water system and ensure that user charges are sufficient to pay for those costs.

The *Sewer fund* accounts for the costs associated with the City's sewer system and ensure that user charges are sufficient to pay for those costs.

Additionally, the City reports the following fund types:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for construction escrow activity.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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.

C. Assets, liabilities and net position/fund balance

Deposits and investments

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

Cash balances from all funds are pooled and invested, to the extent available, in authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds. Investments for the City are reported at fair value.

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Property taxes

The City Council annually adopts a tax levy in December and certifies it to the County for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Auditor and tax settlements are made to the City during January, July and December each year.

Account receivable

Accounts receivable in the enterprise funds include amounts billed for services provided before year end. The City annually certifies delinquent water and sewer accounts to the County for collection. As a result there is no allowance for uncollectible accounts.

Special assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. In the proprietary funds, these assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue upon receipt in the governmental funds.

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital assets

Under the regulatory basis, the City does not account for capital assets used in governmental fund types.

Property, plant and equipment in the proprietary funds of the City are recorded at cost. Property, plant and equipment donated to these proprietary fund type operations are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized in the proprietary funds.

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

Assets	Useful Lives in Years
Buildings and structures	40
Improvements other than buildings	10 to 50
Furniture and equipment	3 to 10

Long-term obligations

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as an expense in the period incurred.

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

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Clerk and Treasurer.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 50 percent of budgeted operating disbursements for cash-flow timing needs.

Net position

In the proprietary fund financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position- Consist of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

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

Comparative data/reclassifications

Comparative total data for the prior year have been presented only for the individual enterprise funds in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information

Annual budgets are adopted on the regulatory basis, which is a comprehensive basis other than Generally Accepted Accounting Principles (GAAP) for the General fund. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Clerk so that a budget may be prepared. Before September 15, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. There were no budget amendments in 2015.

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$12,277 and the bank balance was \$13,136. The bank balance was covered by federal depository insurance.

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

At December 31, 2015, the City's investment balances were as follows:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Government Securities			
Repurchase Investment Sweep	N/A	< 6 months	\$ 594,241

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

A reconciliation of cash and temporary investments as shown on the statements for the City follows:

Carrying amount of deposits	\$ 12,277
Petty cash	50
Investments	594,241
Total cash and temporary investments	<u>\$ 606,568</u>
Governmental funds	\$ 425,748
Proprietary funds	139,270
Fiduciary funds	41,550
Total cash and temporary investments	<u>\$ 606,568</u>

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments to the list on page 27 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with the City's investment policy, the City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements.
- *Interest Rate Risk.* The interest rate risk for investments is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the City's investment policy, extended maturities may be utilized to take advantage of higher yields; however, no more than 30 percent of the total investments should extend beyond five years and in no circumstance should any extend beyond twenty years.

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets being depreciated				
Infrastructure	\$ 892,205	\$ -	\$ -	\$ 892,205
Less accumulated depreciation for				
Infrastructure	(323,100)	(18,900)	-	(342,000)
Business-type activities capital assets, net	<u>\$ 569,105</u>	<u>\$ (18,900)</u>	<u>\$ -</u>	<u>\$ 550,205</u>

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

Business-type activities	
Water	\$ 4,900
Sewer	14,000
Total depreciation expense - business-type activities	<u>\$ 18,900</u>

C. Interfund transfers

The General fund budgeted a \$75,854 transfer and approved an additional \$77,830 transfer to the Street Improvement fund for future street repair projects.

D. Long-term debt

General obligation (G.O.) bonds

The City issues G.O. bonds to provide funds for the acquisition and construction of major capital facilities. G.O. bonds have been issued for proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues.

General obligation bonds are direct obligations of the City and pledge the full faith and credit of the City.

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

General obligation revenue bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be repaid from future revenues pledged from the Water and Sewer funds and are backed by the taxing power of the City. Annual principal and interest payments on the bonds are expected to require over 48 and 100 percent of revenues from the Water and Sewer funds, respectively. For 2015, principal and interest paid and total customer revenues for the Water fund were \$14,961 and \$31,156, respectively. For 2015, principal and interest paid and total customer revenues for the Sewer fund were \$38,800 and \$38,942, respectively.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
General Obligation Improvement Bonds, Series 1997B	\$ 250,000	5.625 %	08/01/97	02/01/18	\$ 37,500
General Obligation Revenue Bonds, Series 1997A	698,775	2.580	04/15/97	08/20/18	109,711
Total G.O. Revenue Bonds					<u>\$ 147,211</u>

The annual requirement to amortize all bonds outstanding as of December 31, 2015 through maturity follows:

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2016	\$ 48,701	\$ 4,356	\$ 53,057
2017	49,641	2,713	52,354
2018	48,869	1,046	49,915
Total	<u>\$ 147,211</u>	<u>\$ 8,115</u>	<u>\$ 155,326</u>

Changes in long-term liabilities

During the year ended December 31, 2015, the following changes occurred in long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities					
General obligation improvement and revenue bonds	<u>\$ 194,996</u>	<u>\$ -</u>	<u>\$ (47,785)</u>	<u>\$ 147,211</u>	<u>\$ 48,701</u>

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 4: OTHER INFORMATION

A. Legal debt margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City has no debt subject to the limit.

B. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

COMBINING AND INDIVIDUAL FUND FINANCIAL SCHEDULES

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

CITY OF WOODLAND, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015
(With comparative actual amounts for the year ended December 31, 2014)

	2015			2014
	Budgeted Amounts		Actual	Actual
	Original	Final	Amounts	Amounts
BUDGETARY FUND BALANCES, JANUARY 1	\$ 266,983	\$ 266,983	\$ 266,983	\$ -
RECEIPTS				
Taxes				
Property taxes	349,629	349,629	345,091	(4,538)
Licenses and permits	21,600	21,600	67,099	45,499
Intergovernmental				
County				
Road aid	2,854	2,854	-	(2,854)
Other grants	1,580	1,580	1,851	271
Total intergovernmental	4,434	4,434	1,851	(2,583)
Charges for services				
Zoning and other	5,500	5,500	4,525	(975)
Fines and forfeitures	2,500	2,500	1,913	(587)
Interest on investments	200	200	239	39
Miscellaneous	1,000	1,000	4,349	3,349
TOTAL RECEIPTS	384,863	384,863	425,067	40,204
AMOUNTS AVAILABLE FOR APPROPRIATION	651,846	651,846	692,050	40,204
DISBURSEMENTS				
Current				
General government				
Mayor and Council				
Personal services	290	290	258	32
Other services and charges	400	400	166	234
Total Mayor and Council	690	690	424	266
City Clerk				
Personal services	43,739	43,739	43,739	-
Supplies	1,100	1,100	561	539
Other services and charges	6,400	6,400	6,501	(101)
Total City Clerk	51,239	51,239	50,801	438
Assessor				
Other services and charges	9,429	9,429	9,492	(63)
Legal				
Other services and charges	10,500	10,500	2,950	7,550

CITY OF WOODLAND, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015
(With comparative actual amounts for the year ended December 31, 2014)

	2015				2014
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
DISBURSEMENTS - CONTINUED					
Current - continued					
General government - continued					
Audit and accounting					
Other services and charges	\$ 11,000	\$ 11,000	\$ 11,000	\$ -	\$ 11,000
Total general government	82,858	82,858	74,667	8,191	83,311
Public safety					
Police					
Other services and charges	109,554	109,554	109,554	-	106,363
Fire					
Personal services	17,360	17,360	17,316	44	21,075
Total public safety	126,914	126,914	126,870	44	127,438
Public works					
Streets and highways					
Supplies	600	600	305	295	342
Other services and charges	15,000	15,000	8,254	6,746	5,978
Total streets and highways	15,600	15,600	8,559	7,041	6,320
Snow and ice removal					
Other services and charges	43,900	43,900	21,708	22,192	40,656
Sanitation and recycling					
Other services and charges	14,950	14,950	15,951	(1,001)	15,595
Engineering					
Other services and charges	12,000	12,000	13,579	(1,579)	22,496
Total public works	86,450	86,450	59,797	26,653	85,067
Miscellaneous					
Unallocated					
Other services and charges	12,787	12,787	10,049	2,738	11,174
TOTAL DISBURSEMENTS	309,009	309,009	271,383	37,626	306,990
OTHER FINANCING USES					
Transfers out	75,854	75,854	153,684	(77,830)	71,909
TOTAL DISBURSEMENTS AND OTHER FINANCING USES	384,863	384,863	425,067	(40,204)	378,899
BUDGETARY FUND BALANCES, DECEMBER 31	\$ 266,983	\$ 266,983	\$ 266,983	\$ -	\$ 266,983

CITY OF WOODLAND, MINNESOTA
 PROPRIETARY FUND
 COMBINING SCHEDULE OF DEBT SERVICE CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2015

	Business-type Activities - Enterprise Funds		
	601		
	Water		
	Prior Years	2015	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
User fees	\$ 64,614	\$ 3,971	\$ 68,585
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Proceeds of bonds issued	250,000	-	250,000
Principal paid on bonds	(200,000)	(12,500)	(212,500)
Interest paid on bonds	(148,828)	(2,461)	(151,289)
Collections of special assessments	234,119	9,353	243,472
Contributed capital from General fund	-	-	-
Purchase of and payment on property and equipment	(187,986)	-	(187,986)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(52,695)	(5,608)	(58,303)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	29,907	26	29,933
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,826	(1,611)	40,215
CASH AND CASH EQUIVALENTS, JANUARY 1	-	41,826	-
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 41,826</u>	<u>\$ 40,215</u>	<u>\$ 40,215</u>

Business-type Activities - Enterprise Funds

602					
Sewer			Totals		
Prior Years	2015	Total	Prior Years	2015	Total
\$ 179,811	\$ 12,360	\$ 192,171	\$ 244,425	\$ 16,331	\$ 260,756
698,775	-	698,775	948,775	-	948,775
(553,818)	(35,285)	(589,103)	(753,818)	(47,785)	(801,603)
(181,919)	(3,515)	(185,434)	(330,747)	(5,976)	(336,723)
486,492	3,070	489,562	720,611	12,423	733,034
18,000	-	18,000	18,000	-	18,000
(697,666)	-	(697,666)	(885,652)	-	(885,652)
(230,136)	(35,730)	(265,866)	(282,831)	(41,338)	(324,169)
77,845	91	77,936	107,752	117	107,869
27,520	(23,279)	4,241	69,346	(24,890)	44,456
-	27,520	-	94,310	69,346	-
\$ 27,520	\$ 4,241	\$ 4,241	\$ 163,656	\$ 44,456	\$ 44,456

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CITY OF WOODLAND, MINNESOTA
SUMMARY FINANCIAL REPORT
RECEIPTS AND DISBURSEMENTS FOR GENERAL OPERATIONS -
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Total		Percent Increase (Decrease)
	2015	2014	
RECEIPTS			
Taxes	\$ 345,091	\$ 337,380	2.29 %
Licenses and permits	67,099	27,614	142.99
Intergovernmental	18,979	1,632	1,062.93
Charges for services	4,525	6,716	(32.62)
Fines and forfeits	1,913	4,761	(59.82)
Investment earnings	317	258	22.87
Miscellaneous	4,349	582	647.25
	<u>\$ 442,273</u>	<u>\$ 378,943</u>	16.71 %
TOTAL RECEIPTS			
Per Capita	\$ 925	\$ 840	10.12 %
DISBURSEMENTS			
Current			
General government	\$ 74,667	\$ 83,311	(10.38) %
Public safety	126,870	127,438	(0.45)
Public works	160,685	115,403	39.24
Miscellaneous	10,049	11,174	(10.07)
	<u>\$ 372,271</u>	<u>\$ 337,326</u>	10.36 %
TOTAL DISBURSEMENTS			
Per Capita	\$ 779	\$ 748	4.13 %
General Fund Balance - December 31	\$ 266,983	\$ 266,983	- %
Per Capita	559	592	(5.65)

The purpose of this report is to provide a summary of financial information concerning the City of Woodland to interested citizens. The complete financial statements may be examined at City Hall, 20225 Cottagewood Road, Deephaven, MN 55331. Questions about this report should be directed to Kathy McCullum, City Clerk at (952) 474-4755.

SUPPLEMENTARY INFORMATION - UNAUDITED

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

CITY OF WOODLAND, MINNESOTA
SUPPLEMENTARY INFORMATION - UNAUDITED
DECEMBER 31, 2015

SCHEDULE OF ACCOUNTS RECEIVABLE

<u>FUND</u>	<u>SOURCE OF REVENUE</u>	<u>PURPOSE</u>	<u>AMOUNT</u>
General	City of Deephaven	Building Permit (4th Quarter)	\$ 5,322
General	Resident	Fire Call	250
General	Hennepin County	Final Tax Settlement Payment	10,306
	TOTAL		<u>\$ 15,878</u>

SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES

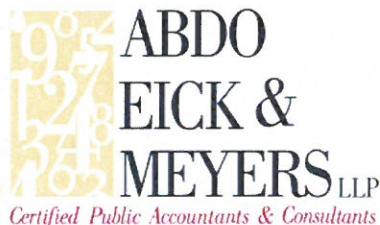
<u>FUND</u>	<u>VENDOR NAME</u>	<u>ITEM AND PURPOSE</u>	<u>AMOUNT</u>
General	ECM Newspaper	Publishing	\$ 117
General	Bolten and Menk, Inc	Miscellaneous Engineering	2,259
General	Campbell Knutson	General	98
General	City of Deephaven	Zoning Hours	119
General	Tallen & Baertschi	Prosecution Charges	410
General	Cornerstone Industries Inc.	Plowing	6,806
	TOTAL		<u>\$ 9,809</u>

OTHER REQUIRED REPORT

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Woodland, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Woodland, Minnesota (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements on the regulatory basis, and have issued our report thereon dated February 17, 2016. In our report, our opinion was adverse because the City prepares its financial statements on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute §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, except that we did not test for compliance with the provisions for tax increment financing because the City does not have any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
February 17, 2016

Mark
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