



Financial Statements  
December 31, 2015  
**City of Fairfax**

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**CITY COUNCIL**

Lois Gilles	Mayor
Jenny Hazelton	Councilor
Josh Bunkers	Councilor
Ross Nachreiner	Councilor
Cindy Fahey	Councilor

**ADMINISTRATION**

Marcia Seibert-Volz	City Administrator
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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

Honorable Mayor and City Council  
City of Fairfax  
Fairfax, 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 Fairfax, 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.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 entity'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 entity'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.

### Opinion

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 Fairfax, 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.

### Adoption of a New Accounting Standard

As discussed in Notes 1 and 6 to the financial statements, the City has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2015. Our opinions are not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedule of budgetary comparison information, schedule of the city's share of net pension liability, and schedule of the city's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

**Other Information**

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

The combining fund 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 fund statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has 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 it.



Mankato, Minnesota  
April 8, 2016

City of Fairfax  
Statement of Net Position  
December 31, 2015

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
Cash	\$ 434,533	\$ 943,321	\$ 1,377,854
Investments	586,291	4,506,469	5,092,760
Receivables:			
Taxes	38,794	-	38,794
Special assessments	592,481	-	592,481
Accounts	63,822	373,036	436,858
Notes	39,904	-	39,904
Prepaid items and deposits	31,570	160,142	191,712
Inventory	-	154,737	154,737
Restricted cash			
Customer deposits	-	53,931	53,931
Savings reserve account	-	12,458	12,458
Capital assets not being depreciated:			
Land	769,290	218,850	988,140
Capital assets net of accumulated depreciation:			
Infrastructure	4,243,669	9,685,807	13,929,476
Buildings	1,491,578	453,521	1,945,099
Equipment	647,502	544,159	1,191,661
Vehicles	293,935	-	293,935
Total assets	<u>9,233,369</u>	<u>17,106,431</u>	<u>26,339,800</u>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	-	42,857	42,857
Pension plans	90,473	47,928	138,401
Total deferred outflows	<u>90,473</u>	<u>90,785</u>	<u>181,258</u>
<b>Liabilities</b>			
Accounts payable	92,987	216,475	309,462
Checks in excess of deposits	-	4,202	4,202
Interest payable	57,081	9,786	66,867
Liabilities payable from restricted assets:			
Customer deposits payable	-	53,931	53,931
Noncurrent liabilities:			
Compensated absences	34,015	2,009	36,024
Due within one year	100,000	312,692	412,692
Due in more than one year	4,875,000	2,485,856	7,360,856
Net pension liability	282,210	227,279	509,489
Total liabilities	<u>5,441,293</u>	<u>3,312,230</u>	<u>8,753,523</u>
<b>Deferred Inflows of Resources</b>			
Pension plans	104,221	53,206	157,427
<b>Net Position</b>			
Net investment in capital assets	2,470,974	8,103,789	10,574,763
Restricted for:			
EDA	445,423	-	445,423
Unrestricted	861,931	5,727,991	6,589,922
Total net position	<u>\$ 3,778,328</u>	<u>\$ 13,831,780</u>	<u>\$ 17,610,108</u>

The notes to the financial statements are an integral part of the financial statements



City of Fairfax  
Balance Sheet – Governmental Funds  
December 31, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 279,230	\$ 155,303	\$ 434,533
Investments	374,070	212,221	586,291
Advance to other funds	-	38,300	38,300
Receivables:			
Taxes	38,794	-	38,794
Special assessments	592,481	-	592,481
Accounts	63,822	-	63,822
Notes	-	39,904	39,904
Prepaid items	31,570	-	31,570
<b>Total assets</b>	<b><u>\$ 1,379,967</u></b>	<b><u>\$ 445,728</u></b>	<b><u>\$ 1,825,695</u></b>
<b>Liabilities:</b>			
Accounts payable	\$ 92,682	\$ 305	\$ 92,987
Advance from other funds	38,300	-	38,300
<b>Total liabilities</b>	<b><u>130,982</u></b>	<b><u>305</u></b>	<b><u>131,287</u></b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	642,299	39,904	682,203
<b>Fund Balances</b>			
Nonspendable - prepaid items	31,570	-	31,570
Nonspendable - advance from other funds	-	38,300	38,300
Restricted reported in nonmajor special revenue funds	-	367,219	367,219
Committed	106,701	-	106,701
Unassigned	468,415	-	468,415
<b>Total fund balances</b>	<b><u>606,686</u></b>	<b><u>405,519</u></b>	<b><u>1,012,205</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 1,379,967</u></b>	<b><u>\$ 445,728</u></b>	<b><u>\$ 1,825,695</u></b>

City of Fairfax  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
 December 31, 2015

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Total Fund Balances for Governmental Funds		\$ 1,012,205
<p>Amounts reported for governmental activities          in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$12,702,467 and the accumulated depreciation is \$5,256,493.</p>		7,445,974
<p>Some of the City's receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred inflows in the funds.</p>		682,203
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general long term debt is \$57,081.</p>		(57,081)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.</p>		(13,748)
<p>Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at year-end are:</p>		
Bonds payable	\$ 4,975,000	
Net Pension Liability	282,210	
Compensated absences	34,015	
		(5,291,225)
Total Net Position for Governmental Activities		\$ 3,778,328

City of Fairfax  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended December 31, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 476,076	\$ -	\$ 476,076
Franchise taxes	5,647	-	5,647
Special assessments	89,994	-	89,994
Fees and fines	6,087	-	6,087
Licenses and permits	11,693	-	11,693
Intergovernmental	533,482	-	533,482
Charges for services	254,915	-	254,915
Investment earnings	5,256	4,737	9,993
Miscellaneous	1,748	36,609	38,357
Total revenue	<u>1,384,898</u>	<u>41,346</u>	<u>1,426,244</u>
<b>Expenditures</b>			
<b>Current:</b>			
General government	360,741	-	360,741
Public safety	407,413	-	407,413
Streets and highways	674,876	-	674,876
Sanitation	81,125	-	81,125
Culture and recreation	203,293	-	203,293
Economic development	-	24,848	24,848
<b>Debt Services:</b>			
Principal	-	60,000	60,000
Interest and other charges	1,753	117,413	119,166
Total expenditures	<u>1,729,201</u>	<u>202,261</u>	<u>1,931,462</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(344,303)</u>	<u>(160,915)</u>	<u>(505,218)</u>
<b>Other Financing Sources (Uses)</b>			
Bond proceeds	725,000	-	725,000
Transfers in	180,000	179,413	359,413
Transfers out	(304,828)	-	(304,828)
Total other financing sources (uses)	<u>600,172</u>	<u>179,413</u>	<u>779,585</u>
Net change in fund balances	255,869	18,498	274,367
Fund Balances - Beginning	<u>350,817</u>	<u>387,021</u>	<u>737,838</u>
Fund Balances - Ending	<u>\$ 606,686</u>	<u>\$ 405,519</u>	<u>\$ 1,012,205</u>

City of Fairfax

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
Year Ended December 31, 2015

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Total Net Change in Fund Balances - Governmental Funds	\$ 274,367
Amounts reported for governmental activities in the statement of activities are different because:	
Some revenues will not be collected for several months after year end, they are not considered "available" revenues and are unearned in the governmental funds. Unearned special assessment receivables increased by \$9,930, delinquent property taxes decreased by \$10,384, deferred notes receivable decreased by \$9,297, and unearned accounts receivable increased \$25,780.	16,029
Some assets reported in the statement of net position do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. Inventory	(26,580)
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 and reported as depreciation expense. This is the amount by which capital outlay (\$573,265) exceeds depreciation expense (\$410,614) in the current period.	162,651
The governmental funds report compensated absence costs as expenditures when paid. The statement of activities, however, reports these costs as expenditures when earned by the employees. In the current year, this amount is the net effect of these differences.	(3,622)
The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability.	60,000
The governmental funds report the issuance of bonds as a revenue. In the statement of net position, however, they are recorded as a liability.	(725,000)
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	37,829
Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. There was \$57,081 and \$52,243 of accrued interest at December 31, 2015 and 2014, respectively.	(4,838)
Change in Net Position of Governmental Activities	<u>\$ (209,164)</u>

	Water	Sanitary Sewer	Storm Sewer
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 155,564	\$ 241,912	\$ 67,635
Investments	624,761	103,196	249,672
Accounts Receivable	34,188	28,200	31,922
Deposits	1,894	2,031	-
Inventory	16,647	1,010	-
Total current assets	<u>833,054</u>	<u>376,349</u>	<u>349,229</u>
<b>Noncurrent Assets:</b>			
Restricted cash			
Customer deposits	-	-	-
Savings reserve account	-	-	-
Prepaid items	-	-	-
Capital assets not being depreciated:			
Land	32,650	166,200	-
Capital assets, net of accumulated depreciation:			
Infrastructure	3,163,446	1,920,666	1,720,117
Buildings	-	-	-
Equipment	47,750	63,487	8,202
Total noncurrent assets	<u>3,243,846</u>	<u>2,150,353</u>	<u>1,728,319</u>
Total assets	<u>4,076,900</u>	<u>2,526,702</u>	<u>2,077,548</u>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	-	-	-
Pension plans	7,601	3,604	488
Total deferred outflows	<u>7,601</u>	<u>3,604</u>	<u>488</u>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable	6,575	942	-
Checks in excess of deposits	-	-	-
Interest payable	5,900	963	-
Total current liabilities	<u>12,475</u>	<u>1,905</u>	<u>-</u>
<b>Current Liabilities Payable from Restricted Assets:</b>			
Customer deposits payable	-	-	-
<b>Noncurrent Liabilities:</b>			
Compensated absences	-	-	-
Due within one year	104,612	97,887	-
Due in more than one year	1,123,000	-	-
Net pension liability (asset)	36,045	17,090	2,313
Total noncurrent liabilities	<u>1,263,657</u>	<u>114,977</u>	<u>2,313</u>
Total liabilities	<u>1,276,132</u>	<u>116,882</u>	<u>2,313</u>
<b>Deferred Inflows of Resources</b>			
Pension plans	8,438	4,001	542
<b>Net Position</b>			
Net investment in capital assets	2,016,234	2,052,466	1,728,319
Unrestricted	783,697	356,957	346,862
Total net position	<u>\$ 2,799,931</u>	<u>\$ 2,409,423</u>	<u>\$ 2,075,181</u>

The notes to the financial statements are an integral part of the financial statements

City of Fairfax  
Statement of Net Position – Proprietary Funds  
December 31, 2015

Electric	Natural Gas	Liquor	HRA Southview	HRA Fairview	Enterprise Fund Total
\$ 118,020	\$ 122,672	\$ 48,485	\$ -	\$ 189,033	\$ 943,321
2,233,728	845,822	99,876	-	349,414	4,506,469
113,015	165,711	-	-	-	373,036
3,105	144	5,913	1,801	4,278	19,166
73,991	11,553	51,536	-	-	154,737
<u>2,541,859</u>	<u>1,145,902</u>	<u>205,810</u>	<u>1,801</u>	<u>542,725</u>	<u>5,996,729</u>
38,206	3,975	-	3,888	7,862	53,931
-	-	-	12,458	-	12,458
140,976	-	-	-	-	140,976
2,500	-	2,500	5,000	10,000	218,850
1,335,549	1,546,029	-	-	-	9,685,807
8,152	-	14,170	69,065	362,134	453,521
39,981	319,273	38,431	4,834	22,201	544,159
<u>1,565,364</u>	<u>1,869,277</u>	<u>55,101</u>	<u>95,245</u>	<u>402,197</u>	<u>11,109,702</u>
<u>4,107,223</u>	<u>3,015,179</u>	<u>260,911</u>	<u>97,046</u>	<u>944,922</u>	<u>17,106,431</u>
-	42,857	-	-	-	42,857
11,402	6,767	18,066	-	-	47,928
<u>11,402</u>	<u>49,624</u>	<u>18,066</u>	<u>-</u>	<u>-</u>	<u>90,785</u>
66,594	113,122	25,287	748	3,207	216,475
-	-	-	4,202	-	4,202
-	2,923	-	-	-	9,786
<u>66,594</u>	<u>116,045</u>	<u>25,287</u>	<u>4,950</u>	<u>3,207</u>	<u>230,463</u>
<u>38,206</u>	<u>3,975</u>	<u>-</u>	<u>3,888</u>	<u>7,862</u>	<u>53,931</u>
2,009	-	-	-	-	2,009
-	105,000	-	5,193	-	312,692
-	1,300,000	-	62,856	-	2,485,856
54,068	32,090	85,673	-	-	227,279
<u>56,077</u>	<u>1,437,090</u>	<u>85,673</u>	<u>68,049</u>	<u>-</u>	<u>3,027,836</u>
<u>160,877</u>	<u>1,557,110</u>	<u>110,960</u>	<u>76,887</u>	<u>11,069</u>	<u>3,312,230</u>
12,657	7,512	20,056	-	-	53,206
1,386,182	460,302	55,101	10,850	394,335	8,103,789
2,558,909	1,039,879	92,860	9,309	539,518	5,727,991
<u>\$ 3,945,091</u>	<u>\$ 1,500,181</u>	<u>\$ 147,961</u>	<u>\$ 20,159</u>	<u>\$ 933,853</u>	<u>\$ 13,831,780</u>

	Water	Sanitary Sewer	Storm Sewer
Operating Revenues			
Utility sales	\$ 307,663	\$ 212,258	\$ 102,309
Liquor and food sales	-	-	-
Rent	-	-	-
Miscellaneous	25,474	2,155	1,553
Total operating revenues	<u>333,137</u>	<u>214,413</u>	<u>103,862</u>
Operating Expenses			
Cost of goods sold	-	-	-
Personnel services	48,439	22,403	7,727
Materials and supplies	73,856	34,061	5,938
Contractual services	-	-	-
Depreciation and amortization	108,955	67,203	50,022
Total operating expenses	<u>231,250</u>	<u>123,667</u>	<u>63,687</u>
Operating income (loss)	<u>101,887</u>	<u>90,746</u>	<u>40,175</u>
Non-Operating Revenues (Expenses)			
Interest and investment revenue	13,683	3,962	3,560
Gain/(loss) on sale of fixed assets	(2,177)	-	-
Interest expense	(20,861)	(3,901)	-
Total non-operating revenues (expenses)	<u>(9,355)</u>	<u>61</u>	<u>3,560</u>
Income (loss) before transfers	92,532	90,807	43,735
Transfers in	82,022	79,241	20,510
Transfers out	(28,179)	-	(28,179)
Change in net position	<u>146,375</u>	<u>170,048</u>	<u>36,066</u>
Net Position - Beginning, as previously reported	2,699,577	2,261,194	2,042,069
Adoption of a new accounting standard	<u>(46,021)</u>	<u>(21,819)</u>	<u>(2,954)</u>
Net Position - Beginning - Restated	<u>2,653,556</u>	<u>2,239,375</u>	<u>2,039,115</u>
Net Position - Ending	<u>\$ 2,799,931</u>	<u>\$ 2,409,423</u>	<u>\$ 2,075,181</u>

The notes to the financial statements are an integral part of the financial statements

City of Fairfax  
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds  
Year Ended December 31, 2015

Electric	Natural Gas	Liquor	HRA Southview	HRA Fairview	Enterprise Fund Total
\$ 1,156,113	\$ 1,360,513	\$ -	\$ -	\$ -	\$ 3,138,856
-	-	540,810	-	-	540,810
-	-	-	43,500	139,734	183,234
7,094	29,637	5,664	1,432	5,388	78,397
<u>1,163,207</u>	<u>1,390,150</u>	<u>546,474</u>	<u>44,932</u>	<u>145,122</u>	<u>3,941,297</u>
-	-	277,783	-	-	277,783
78,778	43,479	156,228	7,201	22,499	386,754
107,294	54,297	76,847	28,948	49,526	430,767
584,212	961,274	-	-	-	1,545,486
82,403	59,835	5,723	19,581	37,031	430,753
<u>852,687</u>	<u>1,118,885</u>	<u>516,581</u>	<u>55,730</u>	<u>109,056</u>	<u>3,071,543</u>
<u>310,520</u>	<u>271,265</u>	<u>29,893</u>	<u>(10,798)</u>	<u>36,066</u>	<u>869,754</u>
70,234	12,662	1,404	319	1,852	107,676
-	-	-	-	-	(2,177)
<u>(5,595)</u>	<u>(39,863)</u>	<u>-</u>	<u>(4,570)</u>	<u>-</u>	<u>(74,790)</u>
<u>64,639</u>	<u>(27,201)</u>	<u>1,404</u>	<u>(4,251)</u>	<u>1,852</u>	<u>30,709</u>
375,159	244,064	31,297	(15,049)	37,918	900,463
-	-	-	-	-	181,773
<u>(130,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(236,358)</u>
<u>245,159</u>	<u>194,064</u>	<u>31,297</u>	<u>(15,049)</u>	<u>37,918</u>	<u>845,878</u>
3,768,963	1,347,088	226,045	35,208	895,935	13,276,079
<u>(69,031)</u>	<u>(40,971)</u>	<u>(109,381)</u>	<u>-</u>	<u>-</u>	<u>(290,177)</u>
<u>3,699,932</u>	<u>1,306,117</u>	<u>116,664</u>	<u>35,208</u>	<u>895,935</u>	<u>12,985,902</u>
<u>\$ 3,945,091</u>	<u>\$ 1,500,181</u>	<u>\$ 147,961</u>	<u>\$ 20,159</u>	<u>\$ 933,853</u>	<u>\$ 13,831,780</u>

	Water	Sanitary Sewer	Storm Sewer
Cash Flows provided by (used for) Operating Activities			
Receipts from customers	\$ 331,886	\$ 213,954	\$ 105,615
Other receipts	-	-	-
Payments to employees	(57,578)	(26,735)	(8,314)
Payments to suppliers	(66,069)	(34,626)	(5,997)
Net cash provided by (used for) operating activities	<u>208,239</u>	<u>152,593</u>	<u>91,304</u>
Cash Flows provided by (used for) Noncapital Financing Activity			
Transfers from Governmental Funds	82,022	79,241	20,510
Transfers to Governmental Funds	(28,179)	-	(28,179)
Net cash provided by (used for) noncapital financing activities	<u>53,843</u>	<u>79,241</u>	<u>(7,669)</u>
Cash Flows provided by (used for) Capital and Related Financing Activities			
Principal paid on bonds and notes payable	(104,000)	(95,063)	-
Proceeds from bonds	16,635	-	-
Interest paid on bonds and notes payable	(19,407)	(4,995)	-
Acquisition of capital assets	(144,111)	(82,935)	(20,510)
Net cash provided by (used for) capital and related financing activities	<u>(250,883)</u>	<u>(182,993)</u>	<u>(20,510)</u>
Cash Flows provided by (used for) Investing Activities			
Purchase of investments	(50,000)	-	(50,000)
Proceeds from sale of investments	50,000	100,000	-
Earnings on investments and cash	15,974	4,492	2,481
Net cash provided by (used for) investing activities	<u>15,974</u>	<u>104,492</u>	<u>(47,519)</u>
Net change in cash	27,173	153,333	15,606
Cash - January 1st (including \$13,780, \$4,575, \$18,067, and \$7,709, for the electric, natural gas, HRA Southview and HRA Fairview funds, respectively, reported as restricted)	<u>128,391</u>	<u>88,579</u>	<u>52,029</u>
Cash - December 31st (including \$38,206, \$3,975, \$16,346, and \$7,862, for the electric, natural gas, HRA Southview and HRA Fairview funds, respectively, reported as restricted)	<u>\$ 155,564</u>	<u>\$ 241,912</u>	<u>\$ 67,635</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ 101,887	\$ 90,746	\$ 40,175
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	108,955	67,203	50,022
Deferred outflows	(2,873)	(1,362)	(185)
Net pension liabilities	(3,888)	(1,843)	(250)
Deferred inflows	(2,378)	(1,127)	(152)
Decrease (increase) in assets:			
Accounts receivable	(1,251)	(459)	1,753
Inventory	3,685	97	-
Prepaid items	(39)	(274)	-
Increase (decrease) in liabilities:			
Accounts payable	4,141	(388)	(59)
Compensated absences	-	-	-
Checks in excess of deposits	-	-	-
Customer deposits	-	-	-
Net Cash Provided by (used for) Operating Activities	<u>\$ 208,239</u>	<u>\$ 152,593</u>	<u>\$ 91,304</u>
Schedule of non-cash items:			
Interest expense - deferred charge on refunding	\$ -	\$ -	\$ -

The notes to the financial statements are an integral part of the financial statements

City of Fairfax  
Statement of Cash Flows - Proprietary Funds  
Year Ended December 31, 2015

Electric	Natural Gas	Liquor	HRA Southview	HRA Fairview	Enterprise Fund Total
\$ 1,150,632	\$ 1,412,591	\$ 546,474	\$ 44,196	\$ 139,887	\$ 3,945,235
-	-	-	1,432	5,388	6,820
(92,486)	(51,615)	(177,946)	(7,201)	(22,499)	(444,374)
(683,928)	(1,024,331)	(363,474)	(26,634)	(50,018)	(2,255,077)
<u>374,218</u>	<u>336,645</u>	<u>5,054</u>	<u>11,793</u>	<u>72,758</u>	<u>1,252,604</u>
-	-	-	-	-	181,773
<u>(130,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(236,358)</u>
<u>(130,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54,585)</u>
(145,000)	(105,000)	-	(5,143)	-	(454,206)
-	-	-	-	-	16,635
(6,096)	(36,401)	-	(4,570)	-	(71,469)
<u>(42,472)</u>	<u>(66,971)</u>	<u>(9,043)</u>	<u>(6,452)</u>	<u>(10,425)</u>	<u>(382,919)</u>
<u>(193,568)</u>	<u>(208,372)</u>	<u>(9,043)</u>	<u>(16,165)</u>	<u>(10,425)</u>	<u>(891,959)</u>
(323,609)	(140,000)	(100,000)	-	(250,000)	(913,609)
194,000	50,000	100,000	-	300,000	794,000
70,272	13,503	847	319	2,671	110,559
<u>(59,337)</u>	<u>(76,497)</u>	<u>847</u>	<u>319</u>	<u>52,671</u>	<u>(9,050)</u>
(8,687)	1,776	(3,142)	(4,053)	115,004	297,010
<u>164,913</u>	<u>124,871</u>	<u>51,627</u>	<u>20,399</u>	<u>81,891</u>	<u>712,700</u>
<u>\$ 156,226</u>	<u>\$ 126,647</u>	<u>\$ 48,485</u>	<u>\$ 16,346</u>	<u>\$ 196,895</u>	<u>\$ 1,009,710</u>
\$ 310,520	\$ 271,265	\$ 29,893	\$ (10,798)	\$ 36,066	\$ 869,754
82,403	59,835	5,723	19,581	37,031	430,753
(4,310)	(2,558)	(6,828)	-	-	(18,116)
(5,831)	(3,461)	(9,239)	-	-	(24,512)
(3,567)	(2,117)	(5,651)	-	-	(14,992)
(37,001)	23,041	-	111	-	(13,806)
70	806	(7,750)	-	-	(3,092)
4,574	(144)	(803)	50	123	3,487
2,160	(9,422)	(291)	(1,938)	(615)	(6,412)
774	-	-	-	-	774
-	-	-	4,202	-	4,202
24,426	(600)	-	585	153	24,564
<u>\$ 374,218</u>	<u>\$ 336,645</u>	<u>\$ 5,054</u>	<u>\$ 11,793</u>	<u>\$ 72,758</u>	<u>\$ 1,252,604</u>
\$ -	\$ 3,572	\$ -	\$ -	\$ -	\$ -

## **Note 1 - Summary of Significant Accounting Policies**

The City of Fairfax (City) is a municipal corporation governed by a mayor and a four member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described below.

### **A. Financial Reporting Entity**

The City is the basic level of government which has oversight responsibility and control over all activities related to the government in the City's area. The City receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by GASB pronouncement, since mayor and council members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City has no component units.

### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of 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.

The government reports the following major governmental fund:

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

The government reports the following major proprietary funds:

The water fund accounts for the activities of the government's water distribution operations.

The sanitary sewer fund accounts for the activities of the government's sewage treatment plant, sewage pumping stations, and collection systems.

The storm sewer fund accounts for the activities of the government's storm sewer operations.

The electric fund accounts for the activities of the government's electric distribution operations.

The natural gas fund accounts for the activities of the government's natural gas distribution operations.

The liquor fund accounts for the activities of the government's on-off sale liquor operations.

The HRA Southview fund accounts for the activities of the government's Southview rental operations.

The HRA Fairview fund accounts for the activities of the government's Fairview rental operations.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's electric, water, and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water, sewer, natural gas, and liquor enterprise funds are charges to customers for sales and services. The enterprise funds also recognize, as operating revenue, rent, recycling charges, refunds and reimbursements, and penalties. 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. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position and Fund Balance**

##### **1. Cash and Investments**

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits and savings accounts, as well as short term investments with an original maturity date within three months of the date acquired by the City. Investments for the government are reported at fair value. For the purposes of the statement of cash flows, cash for each fund includes demand deposit account balances and restricted assets.

##### **2. Receivables and Payables**

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. Currently, the City believes all receivables are collectible.

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable from available financial resources.

Interest on investments and certain receivables is recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

On or before September 15th of each year, the City Council certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All cities must hold public hearings on their proposed property tax levies.

Beginning on November 29th and through December 20th of each year, the City is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the City Council certifies its final adopted property taxes payable the following year to the county auditor. If the City has not certified its final property tax by this time, its property tax shall be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts three times a year, in January, June, and November.

### 3. Inventories, Prepaid Items, and Deposits

All inventories are valued at the lower of cost using the first-in/first-out (FIFO) method or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

Certain proceeds of enterprise fund payments that are set aside for their repayment are recorded as deposits.

### 4. Restricted Assets

Certain proceeds of enterprise fund customer deposits and other certain resources set aside for their repayment or use, are classified as restricted assets on the balance sheet because their use is limited by deposit requirements, grant agreements, or other requirements.

### 5. 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 \$1,000 (amount not rounded) and an estimated useful life in excess of one year. 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 the asset life 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.

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

	<u>Years</u>
Lift Station	50
Sanitary Sewer Mains	40
Water Mains	40
Storm Sewer Mains	40
Sump Pump Lines	40
Buildings	40
Concrete Curb & Gutter and Sidewalks	30
Wells & Pump Houses	25
Water, Electric, Gas Meter	20
Office Equipment	10
Computer Equipment & Software	5
Vehicles	5
Machinery, Equipment, Radios, Phones	10
Site Improvements	20
Land	Not Depreciated

## 6. Compensated Absences

It is the City's policy to permit employees to accumulate unused vacation and sick pay benefits. The City allows employees to accumulate a maximum of 115 days of unused sick leave. An employee who is terminated by the City is eligible for a payout of their accumulated sick leave on the following scale: 0 – 9 years of service – no payout, 10 – 19 years of service – 25% payout, 20 years or more – 50% payout. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Employees with six months or more of continuous employment will be paid all accrued vacation upon termination.

## 7. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

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

## 8. Pensions

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

## 9. Implementation of GASB Statements No. 68 and No. 71

As of January 1, 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

## 10. Deferred Outflows/Inflows of resources

In addition to assets, the statement of financial position or governmental balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period and so will *not* be recognized as an outflow (expense/expenditure) until then. The City has two items that qualify for reporting in this category. The deferred charge on refunding reported in the proprietary fund and government-wide statements of net position. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized as interest expense using the straight-line method over the shorter of the life of the refunded or refunding debt. Also, the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the proprietary fund and government-wide statements of net position.

In addition to liabilities, the statement of financial position or the governmental balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The city has two items that qualifies for reporting in this category. *Unavailable revenue*, which arises only under the modified accrual basis of accounting. Accordingly, *unavailable revenue* is only reported on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available. The other item is changes in the net pension liability not included in pension expense reported in the proprietary fund and government-wide statements of net position.

## 11. Fund Balance and Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Fund balance is reported in classifications that describe the relative strength of the spending constraints. The fund balance classifications are as follows.

- Nonspendable fund balance—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City did not approve a specific amount to maintain as a minimum unassigned general fund balance. If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

#### **E. Inter-fund Transactions**

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transfers are reported as operating transfers. Transfers between funds within the same activity have been eliminated from the government-wide financial statements.

### **Note 2 - Stewardship, Compliance and Accountability**

#### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal yearend. The actual revenues, expenditures, and transfers for the year ended December 31, 2015, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the City's Administrator so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The City Council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the government's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated, (b) the expenditure is still necessary, and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**B. Excess of Expenditures over Appropriations**

For the year ended December 31, 2015, expenditures exceeded appropriations in the General Fund by \$307,506. The excess expenditures were funded by greater than anticipated revenues and available fund balance.

**Note 3 - Detailed Notes on All Funds**

**A. Cash and Investments**

**1. Cash**

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council. All such depositories 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% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk-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 does not have a deposit policy for custodial credit risk. As of December 31, 2015, none of the City's bank balances were exposed to custodial credit risk.

**2. Investments**

As of December 31, 2015, the City had the following investments.

Investment Type:	Fair Value	Weighted Average Maturity (Years)
GNMA	\$ 225	-
Certificates of deposit	1,787,567	0.91
Federal bonds and notes	2,472,967	6.09
Municipal bonds	631,544	0.81
<b>Total Fair Value</b>	<b>\$ 4,892,303</b>	

**Interest Rate Risk.** The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** The City may invest funds as authorized by Minnesota Statutes Section 118A.04. The negotiable Certificates of Deposits are not rated, they are insured by FDIC or pledged collateral. The GNMA and Federal Bonds and Notes have a Moody rating of AAA and an S & P rating of AA+.

**Concentration of Credit Risk.** The City places no limit on the amount the City may invest in any one issuer. More than 5% of the City's investments are in Federal bonds and notes (50.55%).

**Custodial Credit Risk-Investments.** Custodial credit risk is the risk that in the event of an investments failure, the City's investment may not be returned to it. The City does not have an investment policy for custodial credit risk. As of December 31, 2015, none of the City's balances were exposed to custodial credit risk.

**B. Receivables**

The EDA fund issues loans to local businesses. The loans are typically repaid with sixty monthly payments, with interest at 2% to 4.5%. One loan is a lump sum due in March 2017. The loans are secured by liens on the property. The total unpaid balance at December 31, 2015 was \$39,904.

Governmental funds report unavailable revenue in connection with receivables for revenues that have been earned but not received. These receivables are not considered to be available to liquidate liabilities of the current period (collected within 60 days of yearend). The amounts not expected to be collected within one year are also detailed below.

	Unavailable Revenue	Not Expected To Be Collected Within One Year
Special assessments not yet due (general fund)	\$ 572,020	\$ 517,082
Delinquent property taxes and special assessments (general fund)	44,499	-
Accounts receivable (general fund)	25,780	-
Notes receivable (special revenue EDA fund)	39,904	36,106
	<b>\$ 682,203</b>	<b>\$ 553,188</b>

**C. Capital Assets**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 769,290	\$ -	\$ -	\$ 769,290
Capital assets, being depreciated:				
Buildings	1,930,468	48,375	-	1,978,843
Infrastructure	6,428,458	442,532	-	6,870,990
Equipment	2,317,443	82,358	-	2,399,801
Vehicles	683,543	-	-	683,543
Total capital assets, being depreciated	<u>11,359,912</u>	<u>573,265</u>	<u>-</u>	<u>11,933,177</u>
Less accumulated depreciation for:				
Buildings	438,267	48,998	-	487,265
Infrastructure	2,423,063	204,258	-	2,627,321
Equipment	1,638,520	113,779	-	1,752,299
Vehicles	346,029	43,579	-	389,608
Total accumulated depreciation	<u>4,845,879</u>	<u>410,614</u>	<u>-</u>	<u>5,256,493</u>
Total capital assets, being depreciated, net	<u>6,514,033</u>	<u>162,651</u>	<u>-</u>	<u>6,676,684</u>
Governmental activities capital assets, net	<u>\$ 7,283,323</u>	<u>\$ 162,651</u>	<u>\$ -</u>	<u>\$ 7,445,974</u>

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

General government	\$ 40,835
Public safety	63,445
Public works	221,614
Culture and recreation	84,720
Total	<u>\$ 410,614</u>

**C. Capital Assets - Continued**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 218,850	\$ -	\$ -	\$ 218,850
Capital assets, being depreciated				
Infrastructure	15,157,917	347,967	(12,563)	15,493,321
Buildings	1,516,206	19,615	-	1,535,821
Equipment	1,538,789	15,337	(41,878)	1,512,248
Total capital assets, being depreciated	<u>18,212,912</u>	<u>382,919</u>	<u>(54,441)</u>	<u>18,541,390</u>
Less accumulated depreciation for:				
Infrastructure	5,478,617	339,283	(10,386)	5,807,514
Buildings	1,031,153	51,147	-	1,082,300
Equipment	969,644	40,323	(41,878)	968,089
Total accumulated depreciation	<u>7,479,414</u>	<u>430,753</u>	<u>(52,264)</u>	<u>7,857,903</u>
Total capital assets, being depreciated, net	<u>10,733,498</u>	<u>(47,834)</u>	<u>(2,177)</u>	<u>10,683,487</u>
Business-type activities capital assets, net	<u>\$ 10,952,348</u>	<u>\$ (47,834)</u>	<u>\$ (2,177)</u>	<u>\$ 10,902,337</u>

Depreciation expense was charged to business-type activities as follows:

Water	\$ 108,955
Sanitary sewer	67,203
Storm sewer	50,022
Electric	82,403
Natural gas	59,835
Liquor	5,723
HRA Southview	19,581
HRA Fairview	37,031
Total	<u>\$ 430,753</u>

**D. Long-Term Debt**

Mortgage Note. The City entered into a mortgage note secured by an apartment building, payable in monthly installments including interest at 8% per annum through May 21, 2028. Under provisions of a U.S. Government program, the HRA is required to make a minimum monthly payment of \$488 which includes interest at approximately 1%. Additional payments are required to the extent that rent collected exceeds certain prescribed levels. The balance of interest is provided in the form of an interest subsidy. The balance outstanding in the HRA Southview enterprise fund at December 31, 2015 was \$68,049.

General Obligation Bonds. The City issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The original principle amount of general obligation bonds issued in prior years was \$5,117,000. General obligations currently outstanding are as follows:

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
G.O. Revenue & Improvement Bond of 2015A for \$725,000, due in annual installments of \$40,000 to \$55,000 through February, 1, 2030	2.00% - 3.25%	\$ 725,000
G.O. Revenue & Improvement Bond of 2012A for \$3,925,000, due in annual installments of \$35,000 to \$275,000 through February, 1, 2033	2.00% - 3.25%	\$ 3,855,000
G.O. Capital Improvement Bond of 2011A for \$467,000, due in annual installments of \$25,000 to \$40,000 through February, 1, 2027	3.40%	<u>395,000</u>
General Obligation Bonds Payable		<u><u>\$ 4,975,000</u></u>

General Obligation Revenue Bonds. The City issued general obligation revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. General obligation revenue bonds are direct obligations and pledge the full faith and credit of the City. The original principle amount of general obligation revenue bonds issued in prior years was \$5,441,839. General Obligation Revenue Bonds currently outstanding are as follows:

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Drinking Water Revolving Funds - Bonds of 2012 for \$1,034,260, due in annual installments of \$30,612 to \$45,976 through August 20, 2039	1.244%	\$ 922,612
G.O. Bond Purchase Agreement - Bonds of 1997 for \$1,506,773, due in semi-annual installments of \$48,585 to \$49,302 through August 20, 2016	2.95%	97,887
G.O. Bond Purchase Agreement - Bonds of 2000 for \$1,265,806, due in annual installments of \$74,000 to \$79,000 through August 20, 2019	2.04%	305,000
G.O. Natural Gas Refunding Bond of 2013A for \$1,605,000, due in annual installments of \$105,000 to \$135,000 through December 1, 2027	0.70% - 3.60%	<u>1,405,000</u>
General Obligation Revenue Bonds Payable		<u><u>\$ 2,730,499</u></u>

**D. Long-Term Debt – Continued**

Annual debt service requirements to maturity are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 100,000	\$ 142,285	\$ 312,692	\$ 56,198
2017	245,000	131,228	216,246	50,824
2018	245,000	125,908	223,299	47,595
2019	245,000	120,538	225,353	43,660
2020	250,000	115,168	147,407	39,683
2021 - 2025	1,585,000	466,887	792,871	147,926
2026 - 2030	1,585,000	232,374	454,680	47,696
2031 - 2035	720,000	35,040	186,000	21,932
2036 - 2040	-	-	199,000	10,039
2041	-	-	41,000	510
<b>Total</b>	<b>\$4,975,000</b>	<b>\$1,369,428</b>	<b>\$2,798,548</b>	<b>\$ 466,063</b>

Changes in Long-Term Liabilities. During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 30,393	\$ 4,832	\$ 1,210	\$ 34,015	\$ -
General obligation bonds	4,310,000	725,000	60,000	4,975,000	100,000
Long-term Liabilities	<u>\$4,340,393</u>	<u>\$ 729,832</u>	<u>\$ 61,210</u>	<u>\$ 5,009,015</u>	<u>\$ 100,000</u>
<b>Business-type Activities:</b>					
Compensated absences	\$ 1,235	\$ 2,192	\$ 1,418	\$ 2,009	\$ -
Mortgage note payable	73,192	-	5,143	68,049	5,193
G.O. Revenue Bonds	3,162,927	16,635	449,063	2,730,499	307,499
Long-term Liabilities	<u>\$3,237,354</u>	<u>\$ 18,827</u>	<u>\$ 455,624</u>	<u>\$ 2,800,557</u>	<u>\$ 312,692</u>
Refunding bonds included in above activities	<u>\$1,890,000</u>	<u>\$ -</u>	<u>\$ 235,000</u>	<u>\$ 1,655,000</u>	<u>\$ 250,000</u>

Legal Debt Margin. The legal debt limitation based on market values of taxable property in the municipality is equal to \$1,043,784. As of December 31, 2015, none of the debt above applies to the legal debt limitation.

**E. Inter-fund Transfers and Receivables**

Inter-fund transfers during 2015 consisted of the following:

<u>Transfers From</u>	<u>Transfer To</u>					<u>Total</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	
General Fund	\$ -	\$ 123,055	\$ 82,022	\$ 79,241	\$ 20,510	\$ 304,828
Water Fund	-	28,179	-	-	-	28,179
Storm Sewer Fund	-	28,179	-	-	-	28,179
Electric Fund	130,000	-	-	-	-	130,000
Natural Gas Fund	50,000	-	-	-	-	50,000
<b>Total</b>	<b>\$ 180,000</b>	<b>\$ 179,413</b>	<b>\$ 82,022</b>	<b>\$ 79,241</b>	<b>\$ 20,510</b>	<b>\$ 541,186</b>

Purpose for Inter-fund Transfers:

The general fund, water fund, and storm sewer fund transfers funds to the debt service fund for a portion of the general obligation improvement bonds.

The electric and natural gas enterprise funds transferred to the general funds for operations.

The general fund transferred funds to the water fund, sewer fund, and the storm sewer fund to cover each fund's share of the street project.

During 2008, the EDA purchased a building which during 2009 was transferred to the public works department and an advance to/advance from other funds was recorded between the general fund and the EDA fund. The advance is being paid back over 10 annual payments at 4% interest through 2018. The balance of advance to/advance from other fund as of December 31, 2015 is \$38,300.

**F. Committed Fund Balances**

Balances in Committed Fund Balances as of December 31, 2015:

	<u>General Fund</u>
Committed for Fire Equipment	\$ 4,910
Committed for Ambulance	101,000
Committed for Police Equipment	791
<b>Total</b>	<b>\$ 106,701</b>

#### **Note 4 - Defined Benefit 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.

### **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.

## **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 9.1% 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's contributions to the GERF for the year ended December 31, 2015, were \$31,892. The City's 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's contributions to the PEPFF for the year ended December 31, 2015, were \$18,310. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

**1. GERF Pension Costs**

At December 31, 2015, the District reported a liability of \$373,141 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's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 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's proportion was 0.0072 %.

For the year ended December 31, 2015, the City recognized pension expense of \$30,949 for its proportionate share of the GERF's pension expense.

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 3,460	\$ 18,813
Changes in actuarial assumptions	23,238	-
Difference between projected and actual investment earnings	35,324	68,540
City's contributions to GERF subsequent to the measurement date	<u>16,664</u>	<u>-</u>
Total	<u>\$ 78,686</u>	<u>\$ 87,353</u>

\$16,664 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:

<u>Years Ended December 31,</u>	<u>Pension Expense Amount</u>
2016	\$ (6,937)
2017	(6,938)
2018	(20,287)
2019	8,831
2020	-

## 2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$136,348 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's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 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's proportion was 0.012 %.

For the year ended December 31, 2015, the City recognized pension expense of \$25,296 for its proportionate share of the PEPFF's pension expense. The City recognized \$1,080 for the year ended December 31, 2015, as 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 145	\$ 22,111
Changes in actuarial assumptions	25,916	-
Difference between projected and actual investment earnings	23,756	47,963
City's contributions to PEPFF subsequent to the measurement date	<u>9,898</u>	<u>-</u>
Total	<u>\$ 59,715</u>	<u>\$ 70,074</u>

\$9,898 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:

<u>Years Ended December 31,</u>	<u>Pension Expense Amount</u>
2016	\$ (7,956)
2017	(7,956)
2018	(7,956)
2019	8,032
2020	(4,421)

**E. Actuarial Assumptions**

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

<u>Assumptions</u>	<u>PERF</u>
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 1<sup>st</sup> through 2034 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 GERS 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.

There were no changes in actuarial assumptions in 2015.

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:

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

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. 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.

**G. Pension Liability Sensitivity**

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.90%	7.90%	8.90%
City's proportionate share of the GERF net pension liability	586,711	373,141	196,766
PEPFF discount rate	6.90%	7.90%	8.90%
City's proportionate share of the PEPFF net pension liability	265,744	136,348	29,445

**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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling 651-296-7460 or 800-652-9026.

## **Note 5 - Other Information**

### **A. Contingencies**

The City participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant.

The City obtained from the Minnesota Housing Finance Agency, Housing Trust Fund Housing Program deferred mortgages of \$84,838 during 1995 and \$56,800 during 1996. The proceeds of the loans were used along with bonds to purchase and repair a rental project by the HRA of the City of Fairfax. The City is subject to the terms and conditions of the deferred mortgage loan agreements, which includes restriction on transfer or sale, usage, and other various requirements regarding the property for a period of thirty years. The loans were made as no-interest loans. It is the intent of all parties concerned that the deferred mortgage loans be paid back only in the event the organization defaults on the conditions described in the agreement. These amounts were accounted for as contributed capital in that no default is intended or foreseen by either party.

### **B. Joint Power Agreement**

The City, in conjunction with Sibley and Renville County and 26 other cities and townships, created a joint powers agreement, RS Fiber, to analyze and assess communications delivery and service issues affecting the parties and the region, and develop plans for construction and operation of a communications network and enhancement of local communications services. In the event of dissolution, following the payment of all outstanding obligations, assets will be distributed among the then-existing members in direct proportion to their cumulative contributions. If the outstanding obligations exceed the assets of the cooperative, the net deficit will be charged to and paid by then-existing members equally. During 2015, RS Fiber issued \$8,065,000 of Taxable General Obligation Abatement Bonds of which \$1,191,201 is the City's responsibility if RS Fiber defaults. The City also has a \$15,000 loan receivable from RS Fiber, which is due in a lump sum in March 2017. The City did not make any payments to RS Fiber in 2015. As of December 31, 2015, RS Fiber had a positive balance and did not represent a burden to the City.

## **Note 6 - Adoption of a New Accounting Standard**

As of January 1, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated by \$623,964 to retroactively report the beginning net pension liability and deferred inflows and deferred outflows of resources related to contributions made after the measurement date.



Required Supplementary Information  
December 31, 2015

**City of Fairfax**

City of Fairfax  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes:				
Property	\$ 484,845	\$ 484,845	\$ 476,076	\$ (8,769)
Franchise	5,394	5,394	5,647	253
Special assessments	67,788	67,788	89,994	22,206
Licenses and permits	14,851	14,851	11,693	(3,158)
Intergovernmental revenue				
Local government aid	444,305	444,305	466,289	21,984
Agricultural market value credit	-	-	821	821
Other state aids and grants	17,528	17,528	66,372	48,844
Charges for services:				
General government	32,506	32,506	62,877	30,371
Police and fire contracts	23,000	23,000	23,163	163
Other public safety	99,500	99,500	64,925	(34,575)
Garbage and recycling	83,410	83,410	84,589	1,179
Parks and recreation	19,813	19,813	19,361	(452)
Fines and forfeits	2,394	2,394	6,087	3,693
Miscellaneous revenue:				
Interest earnings	10,037	10,037	5,256	(4,781)
Miscellaneous revenue	1,330	1,330	1,748	418
Total revenues	<u>1,306,701</u>	<u>1,306,701</u>	<u>1,384,898</u>	<u>78,197</u>
<b>Expenditures:</b>				
General government:				
Mayor and council	15,418	15,418	11,414	4,004
Administration and finance	143,473	143,473	142,284	1,189
Other general government	125,987	125,987	143,849	(17,862)
Capital outlay	100,000	100,000	63,194	36,806
Public safety:				
Police - current expenditures	203,173	203,173	203,998	(825)
Police - capital outlay	4,820	4,820	7,611	(2,791)
Ambulance - current expenditures	51,660	51,660	55,137	(3,477)
Ambulance - capital outlay	40,600	40,600	20,904	19,696
Fire - current expenditures	53,388	53,388	87,661	(34,273)
Fire - capital outlay	21,800	21,800	23,332	(1,532)
Other protection	13,455	13,455	8,770	4,685
Streets and highways:				
Street maintenance	123,800	123,800	109,396	14,404
Snow and ice removal	30,927	30,927	20,400	10,527
Street engineering	72,100	72,100	123,392	(51,292)
Street lighting	16,274	16,274	18,991	(2,717)
Street construction - capital outlay	51,663	51,663	356,999	(305,336)
Street - other capital outlay	45,800	45,800	45,698	102
Sanitation:				
Garbage and other refuse collection	87,206	87,206	75,232	11,974
Other sanitation - current expenditures	5,998	5,998	5,893	105

City of Fairfax  
 Budgetary Comparison Schedule – General Fund - Continued  
 Year Ended December 31, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Culture and recreation:				
Library - current expenditures	46,557	46,557	44,971	1,586
Parks and recreation - current expenditures	154,071	154,071	140,480	13,591
Parks and recreation - capital outlay	11,500	11,500	17,842	(6,342)
Debt service				
Interest payments on other long term debt	2,025	2,025	1,753	272
Total expenditures	<u>1,421,695</u>	<u>1,421,695</u>	<u>1,729,201</u>	<u>(307,506)</u>
Excess (Deficiency) of Revenue over (Under) Expenditures	<u>(114,994)</u>	<u>(114,994)</u>	<u>(344,303)</u>	<u>(229,309)</u>
Other Financing Sources (Uses):				
Bond proceeds	-	-	725,000	725,000
Transfers in	200,000	200,000	180,000	(20,000)
Transfers out	<u>(123,405)</u>	<u>(123,405)</u>	<u>(304,828)</u>	<u>(181,423)</u>
Total Other Financing Sources (Uses)	<u>76,595</u>	<u>76,595</u>	<u>600,172</u>	<u>523,577</u>
Net Change in Fund Balances	(38,399)	(38,399)	255,869	294,268
Fund Balance - Beginning	<u>350,817</u>	<u>350,817</u>	<u>350,817</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 312,418</u>	<u>\$ 312,418</u>	<u>\$ 606,686</u>	<u>\$ 294,268</u>

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2015, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the City's Administrator so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The City Council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the government's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated, (b) the expenditure is still necessary, and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

### **B. Excess of Expenditures over Appropriations**

For the year ended December 31, 2015, expenditures exceeded appropriations in the general fund by \$307,506. These excess expenditures were funded by greater than anticipated revenues and available fund balance.

City of Fairfax  
 Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions  
 Year Ended December 31, 2015

**Schedule of Employer's Share of Net Pension Liability  
 Last 10 Fiscal Years \***

Pension Plan	Measurement Date	City's Proportion (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With the City (b)	Total (d) (a+b)	City's Covered - Employee Payroll (e)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered - Employee Payroll (a/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	06/30/15	0.0072%	\$ 373,141	N/A	\$ 373,141	\$ 432,014	86.4%	78.2%
GERF	06/30/14	0.0088%	\$ 413,380	N/A	\$ 413,380	\$ 444,176	93.1%	78.9%
PEPFF	06/30/15	0.012%	\$ 136,348	N/A	\$ 136,348	\$ 113,022	120.6%	86.6%
PEPFF	06/30/14	0.011%	\$ 118,805	N/A	\$ 118,805	\$ 109,345	108.7%	87.1%

**Schedule of Employer's Contributions  
 Last 10 Fiscal Years \***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Employee Payroll (d)	Contributions as a Percentage of Covered - Employee Payroll (b/d)
GERF	12/31/15	\$ 31,892	\$ 31,892	\$ -	\$ 432,014	7.4%
GERF	12/31/14	\$ 31,107	\$ 31,107	\$ -	\$ 444,176	7.0%
PEPFF	12/31/15	\$ 18,310	\$ 18,310	\$ -	\$ 113,022	16.2%
PEPFF	12/31/14	\$ 16,072	\$ 16,072	\$ -	\$ 109,345	14.7%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.



Supplemental Schedules and Related Information  
December 31, 2015

**City of Fairfax**

	<u>Special Revenue Fund</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>EDA</u>	<u>Debt Service Fund</u>	
<b>Assets</b>			
Cash	\$ 155,303	\$ -	\$ 155,303
Investments	212,221	-	212,221
Advance to other funds	38,300	-	38,300
Notes receivable	39,904	-	39,904
	<u>39,904</u>	<u>-</u>	<u>39,904</u>
Total Assets	<u>\$ 445,728</u>	<u>\$ -</u>	<u>\$ 445,728</u>
<b>Liabilities</b>			
Accounts payable	\$ 305	\$ -	\$ 305
	<u>305</u>	<u>-</u>	<u>305</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	39,904	-	39,904
	<u>39,904</u>	<u>-</u>	<u>39,904</u>
<b>Fund balances</b>			
Nonspendable - Advance to other funds	38,300	-	38,300
Restricted	367,219	-	367,219
	<u>367,219</u>	<u>-</u>	<u>367,219</u>
Total fund balances	<u>405,519</u>	<u>-</u>	<u>405,519</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
	<u>\$ 445,728</u>	<u>\$ -</u>	<u>\$ 445,728</u>

City of Fairfax

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds  
Year Ended December 31, 2015

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	Special Revenue Fund		Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
	EDA	Debt Service Fund			
<b>REVENUES:</b>					
Taxes					
Property	\$ -	\$ -	\$ -	\$ 476,076	\$ 476,076
Franchise	-	-	-	5,647	5,647
Special assessments	-	-	-	89,994	89,994
Licenses and permits	-	-	-	11,693	11,693
Intergovernmental Revenue					
Local government aid	-	-	-	466,289	466,289
Agricultural market value credit	-	-	-	821	821
PERA aid	-	-	-	2,028	2,028
Other state grants and aids	-	-	-	64,344	64,344
Charges for Services					
General government	-	-	-	62,877	62,877
Police and fire contracts	-	-	-	23,163	23,163
Other public safety	-	-	-	64,925	64,925
Garbage and recycling	-	-	-	84,589	84,589
Parks and recreation	-	-	-	19,361	19,361
Fines and forfeits	-	-	-	6,087	6,087
Investment earnings	4,737	-	4,737	5,256	9,993
Miscellaneous	36,609	-	36,609	1,748	38,357
Total Revenues	<u>41,346</u>	<u>-</u>	<u>41,346</u>	<u>1,384,898</u>	<u>1,426,244</u>
<b>EXPENDITURES:</b>					
General Government					
Mayor and council	-	-	-	11,414	11,414
Administration and finance	-	-	-	142,284	142,284
Other general government	-	-	-	143,849	143,849
Capital outlay	-	-	-	63,194	63,194

Public Safety					
Police - current expenditures	-	-	-	203,998	203,998
Police - capital outlay	-	-	-	7,611	7,611
Fire - current expenditures	-	-	-	87,661	87,661
Fire - capital outlay	-	-	-	23,332	23,332
Ambulance - current expenditures	-	-	-	55,137	55,137
Ambulance - capital outlay	-	-	-	20,904	20,904
Other protection	-	-	-	8,770	8,770
Streets and Highways					
Street maintenance	-	-	-	232,788	232,788
Snow and ice removal	-	-	-	20,400	20,400
Street lighting	-	-	-	18,991	18,991
Street construction - capital outlay	-	-	-	356,999	356,999
Street construction - other capital outlay	-	-	-	45,698	45,698
Sanitation					
Garbage and other refuse collection	-	-	-	75,232	75,232
Other sanitation - current expenditures	-	-	-	5,893	5,893
Culture and Recreation					
Library - current expenditures	-	-	-	44,971	44,971
Parks and recreation - current expenditures	-	-	-	140,480	140,480
Parks and recreation - capital outlay	-	-	-	17,842	17,842
Housing and Economic Development					
Economic development - current expenditures	24,848	-	24,848	-	24,848
Debt Service					
Principal	-	60,000	60,000	-	60,000
Interest and other charges	-	117,413	117,413	1,753	119,166
Total Expenditures	<u>24,848</u>	<u>177,413</u>	<u>202,261</u>	<u>1,729,201</u>	<u>1,931,462</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,498</u>	<u>(177,413)</u>	<u>(160,915)</u>	<u>(344,303)</u>	<u>(505,218)</u>
Other Financing Sources (Uses):					
Bond proceeds	-	-	-	725,000	725,000
Transfers in	2,000	177,413	179,413	180,000	359,413
Transfers out	-	-	-	(304,828)	(304,828)
Total Other Financing Sources (Uses)	<u>2,000</u>	<u>177,413</u>	<u>179,413</u>	<u>600,172</u>	<u>779,585</u>
Net Change in Fund Balances	18,498	-	18,498	255,869	274,367
Fund Balance - Beginning	<u>387,021</u>	<u>-</u>	<u>387,021</u>	<u>350,817</u>	<u>737,838</u>
Fund Balance - Ending	<u>\$ 405,519</u>	<u>\$ -</u>	<u>\$ 405,519</u>	<u>\$ 606,686</u>	<u>\$ 1,012,205</u>



## Independent Auditor's Report on Minnesota Legal Compliance

Honorable Mayor and City Council  
City of Fairfax  
Fairfax, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fairfax, as of and for the year ended December 31, 2015, and have issued our report thereon dated April 8, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 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 utilize tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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.

This report is intended solely for the information and use of those charged with governance and management of the City of Fairfax and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota  
April 8, 2016