

# Annual Financial Report

City of Cannon Falls  
Cannon Falls, Minnesota

For the Year Ended  
December 31, 2016

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CITY OF CANNON FALLS  
CANNON FALLS, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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ANNUAL FINANCIAL REPORT  
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**INTRODUCTORY SECTION**

**CITY OF CANNON FALLS  
CANNON FALLS, MINNESOTA**

**FOR THE YEAR ENDED  
DECEMBER 31, 2016**

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CITY OF CANNON FALLS, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**ELECTED**

Name	Title	Term Expires
Lyman (Robby) Robinson	Mayor	12/31/18
Merlyce Johnson	Council Member	12/31/16
Jay Sjoblom	Council Member	12/31/16
Morris Mattson	Council Member	12/31/16
Cedar Abadie	Council Member	12/31/18
Cathy Gallups	Council Member	12/31/16
Lynne Berg	Council Member	12/31/16

**APPOINTED**

Name	Title
Ron Johnson	City Administrator
Lanell Endres	Assistant City Administrator
Tom Bergeson	Public Works Director
Justin Padgett	Library Director - through 12/05/2016
Ellen Hartman	Interim Library Director
Jeff McCormick	Chief of Police
Campbell, Knutson, P.A.	City Attorney
David Maroney	Community Development Director
Tim Malchow	EMS Chief
Todd Anderson	Fire Chief

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**FINANCIAL SECTION**  
**CITY OF CANNON FALLS**  
**CANNON FALLS, MINNESOTA**

**FOR THE YEAR ENDED**  
**DECEMBER 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Cannon Falls, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cannon Falls, Minnesota (the City), as of and for the year ended December 31, 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedules of Employer's Share of the Net Pension Liability, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios and the Schedules of Employer's Contributions starting on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

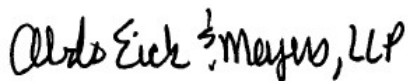
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and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

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules 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.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
April 18, 2017

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## **Management's Discussion and Analysis**

As management of the City of Cannon Falls, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016.

### **Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$29,222,044 (net position). Of this amount, \$4,656,296 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$530,187. This increase is due to governmental activities and business-type activities, which increased \$196,809 and \$333,378, respectively.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,289,008, an increase of \$498,810 in comparison with the prior year.
- At the end of the current fiscal year, total fund balance for the General fund was \$2,075,364 or 66 percent of budgeted 2017 General fund expenditures.
- The City's total debt increased \$2,330,924 during the current fiscal year due to the issuance of a new bond in 2016 and the increase in the net pension liability.

**Overview of the Financial Statements**

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

The financial statements include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1**  
**Required Components of the**  
**City’s Annual Financial Report**

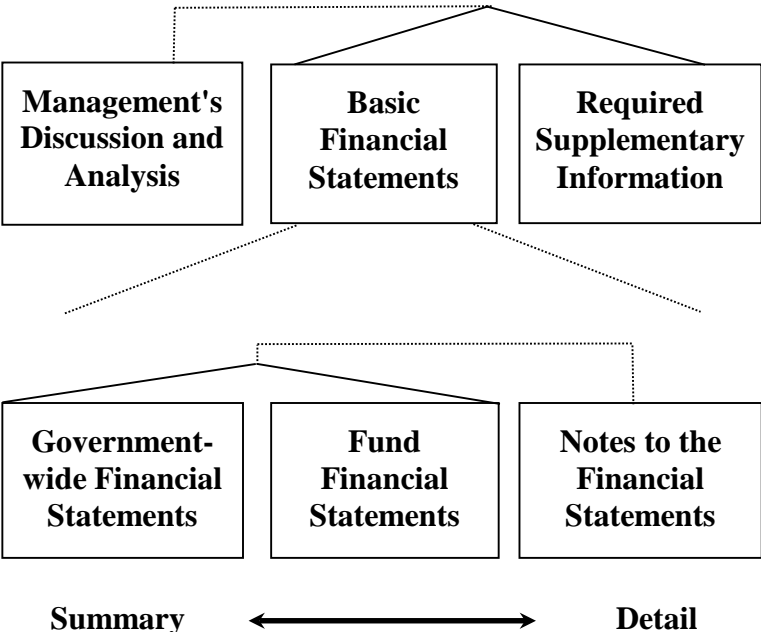


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

**Figure 2**  
**Major features of the Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development, miscellaneous, and debt service. The business-type activities of the City include water utility, disposal, ambulance, storm water, recycling, and deputy registrar. The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (the EDA) for which the City is financially accountable. Financial information for this *component unit* is discretely presented from the financial information presented for the primary government itself.

The government-wide financial statements start on page 29 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 18 individual governmental funds, five of which are Debt Service funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Debt Service and 2016 Street Improvement - Westside Phase II funds, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund, special revenue funds and certain Debt Service funds. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with its budget.

The basic governmental fund financial statements start on page 34 of this report.

**Proprietary funds:** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water utility, disposal, storm water, ambulance, recycling and deputy registrar.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City. Data from the non-major enterprise funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major enterprise funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The basic proprietary fund financial statements start on page 40 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 47 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 84 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$29,222,044 at the close of the most recent fiscal year.

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

### City of Cannon Falls' Summary of Net Position

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
<b>Assets</b>						
Current and other assets	\$ 6,494,589	\$ 5,819,561	\$ 675,028	\$ 4,475,590	\$ 4,583,882	\$ (108,292)
Capital assets	15,057,442	14,514,457	542,985	22,623,094	22,053,343	569,751
Total assets	21,552,031	20,334,018	1,218,013	27,098,684	26,637,225	461,459
Deferred Outflows of Resources	2,193,636	344,860	1,848,776	170,981	33,974	137,007
<b>Liabilities</b>						
Long-term liabilities outstanding	10,087,313	7,490,443	2,596,870	10,391,842	10,108,998	282,844
Other liabilities	589,992	320,413	269,579	197,158	247,509	(50,351)
Total liabilities	10,677,305	7,810,856	2,866,449	10,589,000	10,356,507	232,493
Deferred Inflows of Resources	474,033	470,502	3,531	52,950	61,575	(8,625)
<b>Net position</b>						
Net investment in capital assets	8,940,987	8,891,947	49,040	12,767,726	12,638,156	129,570
Restricted	2,857,035	2,476,386	380,649	-	-	-
Unrestricted	796,307	1,029,187	(232,880)	3,859,989	3,614,961	245,028
Total net position	\$12,594,329	\$12,397,520	\$ 196,809	\$16,627,715	\$16,253,117	\$ 374,598

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

**Statement of activities.** The changes in net position are highlighted below:

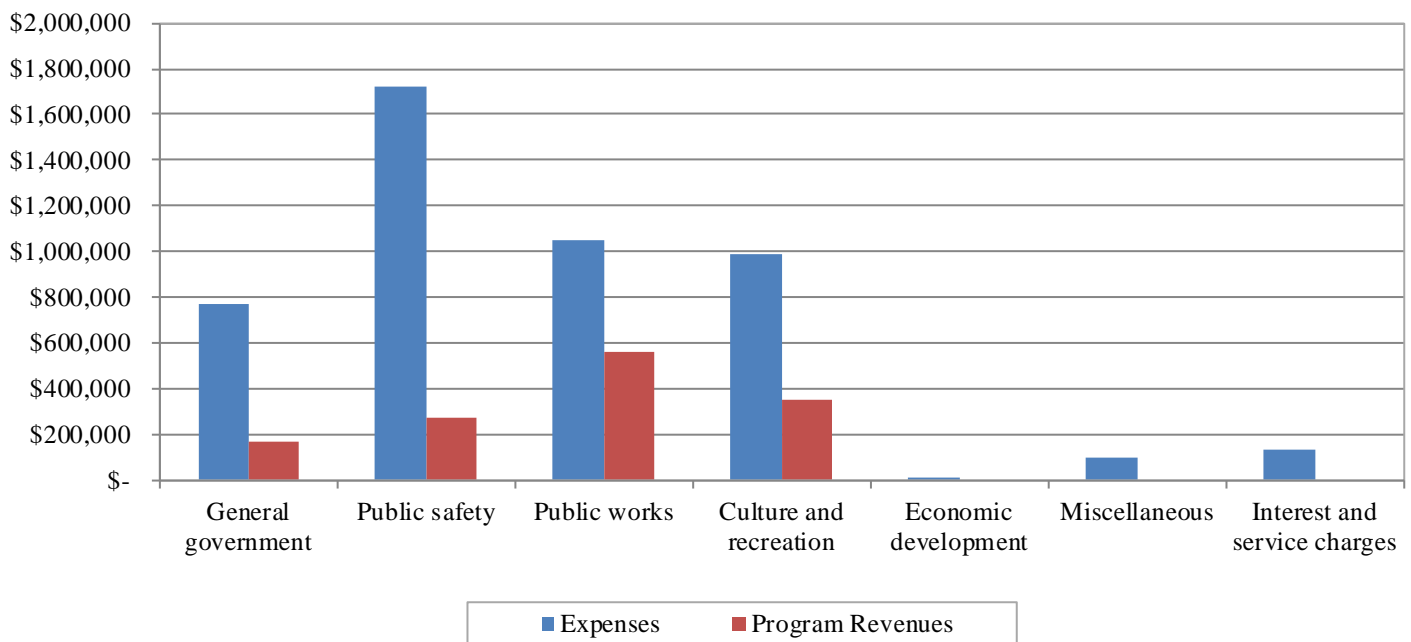
### City of Cannon Falls' Changes in Net Position

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 559,473	\$ 530,691	\$ 28,782	\$ 3,240,808	\$ 2,997,924	\$ 242,884
Operating grants and contributions	235,950	312,972	(77,022)	4,982	36,676	(31,694)
Capital grants and contributions	558,501	149,782	408,719	139,480	119,275	20,205
General revenues						
Taxes	2,777,796	2,710,466	67,330	-	-	-
Grants and contributions not restricted to specific programs	646,998	641,926	5,072	-	-	-
Investment earnings	30,536	9,939	20,597	17,518	9,756	7,762
Miscellaneous revenue	-	-	-	-	-	-
Gain on sale of capital assets	-	9,364	(9,364)	-	-	-
Total revenues	4,809,254	4,365,140	444,114	3,402,788	3,163,631	239,157
Expenses						
General government	774,247	754,681	19,566	-	-	-
Public safety	1,720,434	1,359,534	360,900	-	-	-
Public works	1,049,025	953,062	95,963	-	-	-
Culture and recreation	991,255	983,717	7,538	-	-	-
Economic development	4,490	4,490	-	-	-	-
Miscellaneous	95,247	86,700	8,547	-	-	-
Interest and service charges	132,897	121,181	11,716	-	-	-
Water utility	-	-	-	760,241	747,008	13,233
Disposal	-	-	-	1,161,063	1,175,978	(14,915)
Storm water	-	-	-	57,434	54,378	3,056
Recycling	-	-	-	72,655	65,395	7,260
Ambulance	-	-	-	727,593	649,602	77,991
Deputy registrar	-	-	-	135,274	122,253	13,021
Total expenses	4,767,595	4,263,365	504,230	2,914,260	2,814,614	99,646
Change in net position before transfers	41,659	101,775	(60,116)	488,528	349,017	139,511
Capital contributions by developer and others	-	50,000	(50,000)	-	-	-
Transfers	155,150	146,523	8,627	(155,150)	(146,523)	(8,627)
Change in net position	196,809	298,298	(101,489)	333,378	202,494	130,884
Net position, January 1 as	12,397,520	12,099,222	298,298	16,253,117	16,050,623	202,494
Prior period adjustment	-	-	-	41,220	-	41,220
Net position, December 31	<u>\$12,594,329</u>	<u>\$12,397,520</u>	<u>\$ 196,809</u>	<u>\$16,627,715</u>	<u>\$16,253,117</u>	<u>\$ 374,598</u>

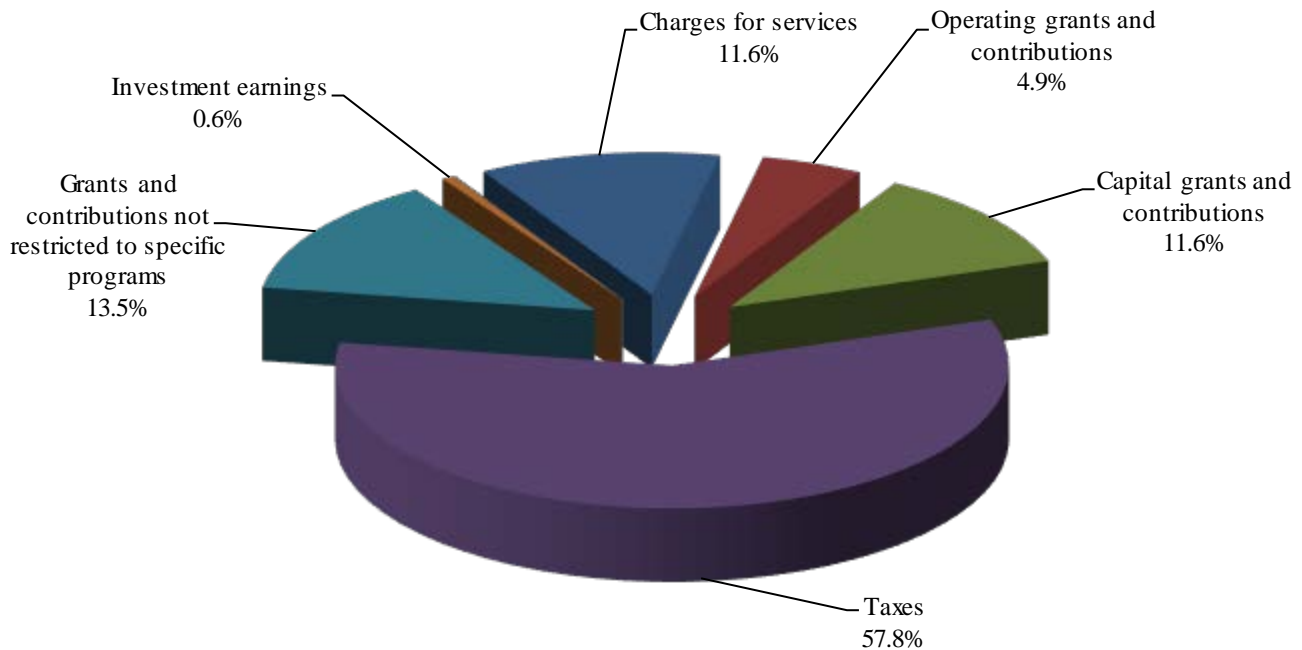


The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities. **Governmental activities.** Net position in the governmental activities increased \$196,809.

### Expenses and Program Revenues - Governmental Activities

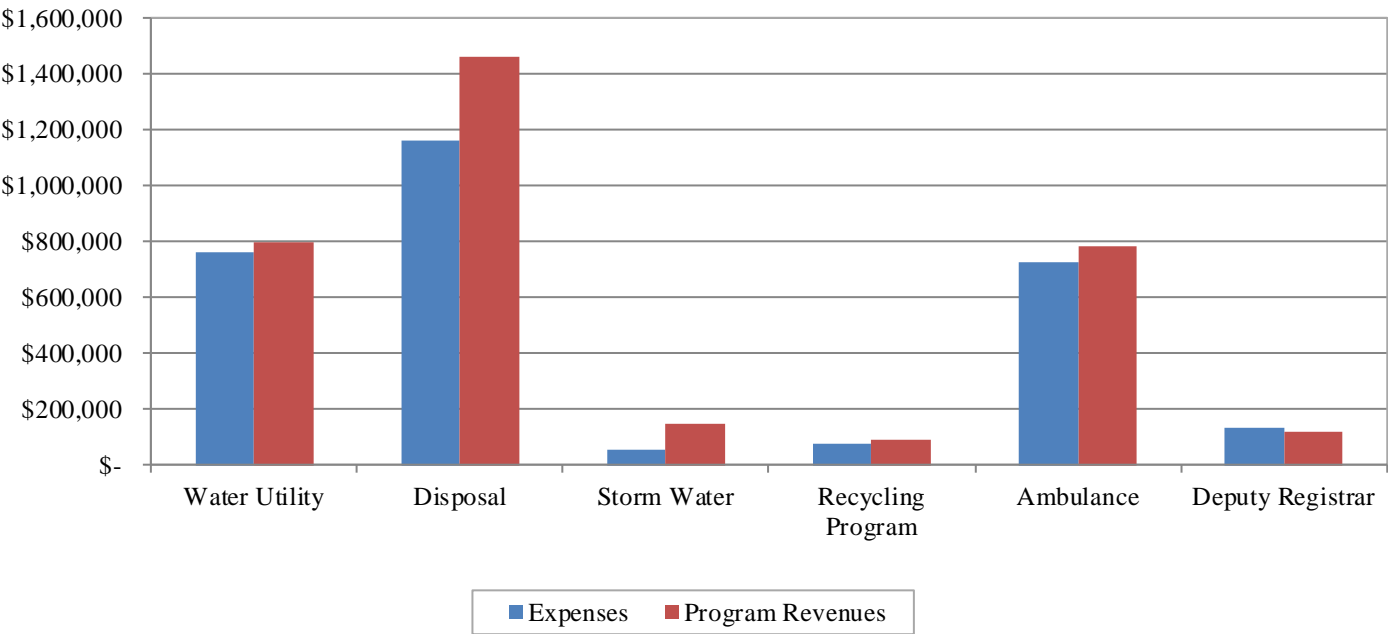


### Revenues by Source - Governmental Activities

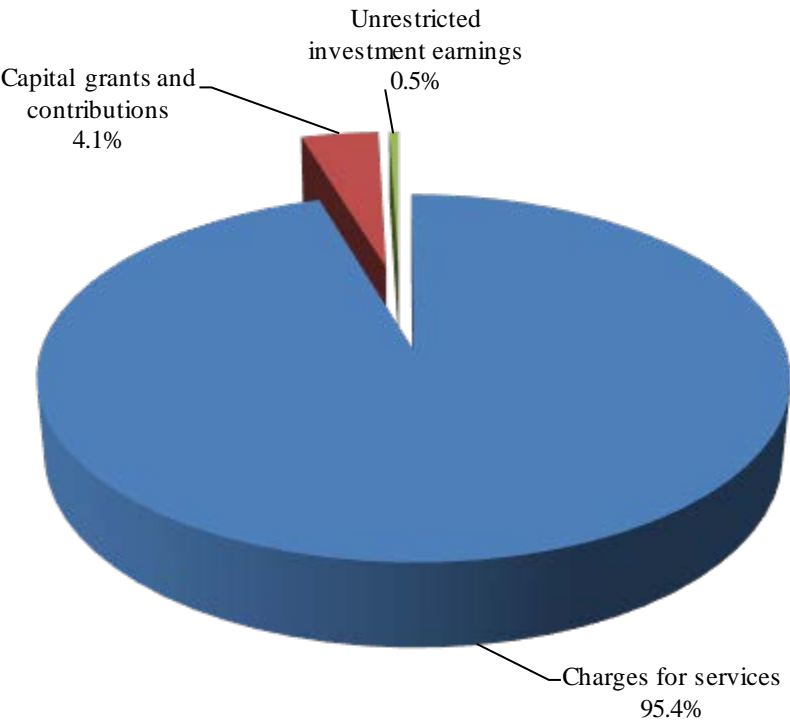


**Business-type activities.** Net position in business-type activities increased by \$333,378.

**Expenses and Program Revenues - Business-type Activities**



**Revenues by Source - Business-type Activities**



## Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,289,008, an increase of \$498,810 in comparison with the prior year. Approximately 47.5 percent of this total amount (\$2,036,209) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance (\$2,252,799) is not available for new spending because it is either 1) nonspendable (\$43,416) 2) restricted (\$1,492,123), 3) committed (\$476,226), or 4) assigned (\$241,034). For further classification refer to Note 3G on page 66 of this report.

Activity in the City's major funds is discussed below:

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2016	2015	
<b>General</b>	\$ 2,075,364	\$ 2,167,014	\$ (91,650)
Fund balance decreased \$91,650. The fund transferred out \$260,000 as the City's contribution to the Library bond fund and \$111,475 to other funds for future capital purchases.			
<b>Debt Service</b>	\$ 1,340,897	\$ 1,011,320	\$ 329,577
The Debt Service funds increased due to transfers in totaling \$396,400.			
<b>2016 Street Improvement Westside Phase II</b>	\$ (2,560)	\$ (29,959)	\$ 27,399
The fund issued debt totaling \$1,214,783. Currently, expenditures exceed financing sources for the project.			

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the enterprise funds at the end of the year amounted to \$3,859,989. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

The City's General fund budget was not amended during 2016. Compared to the final budget, revenues were over budget by \$151,182 and expenditures were under budget by \$39,283.

- The largest revenue variance was from miscellaneous revenue, which was \$37,132 over budget due to other miscellaneous revenues of \$31,483.
- The largest variances in expenditures included administrative and snow and ice removal. Administrative expenditures were under budget by \$57,307 due to personnel charges and other services and charges being under budget.

## Capital Asset and Debt Administration

**Capital assets:** The City's investment in capital assets for its governmental and business type activities as of December 31, 2016, amounts to \$37,680,536 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges.

Additional information on the City's capital assets can be found in Note 3D starting on page 59 of this report.

### City of Cannon Falls' Capital Assets (net of depreciation)

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Land	\$ 914,346	\$ 908,474	\$ 5,872	\$ 87,816	\$ 87,816	\$ -
Construction in progress	1,213,313	33,117	1,180,196	1,239,979	-	1,239,979
Buildings and improvements	3,414,618	3,531,157	(116,539)	5,932	6,466	(534)
System improvements/infrastructure	8,039,909	8,400,234	(360,325)	20,637,193	21,420,496	(783,303)
Machinery and equipment	699,959	766,304	(66,345)	355,704	372,055	(16,351)
Vehicles	775,297	875,171	(99,874)	296,470	166,510	129,960
Total	<u>\$15,057,442</u>	<u>\$14,514,457</u>	<u>\$ 542,985</u>	<u>\$22,623,094</u>	<u>\$22,053,343</u>	<u>\$ 569,751</u>

**Long-term debt.** At the end of the current fiscal year, the City had total bonded and capital lease debt outstanding of \$15,971,823. While all of the City's bonds have revenue streams, all are backed by the full faith and credit of the City.

### City of Cannon Falls' Outstanding Debt

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Capital lease payable	\$ 31,455	\$ 38,510	\$ (7,055)	\$ 31,456	\$ 38,511	\$ (7,055)
Compensated absences payable	186,025	180,599	5,426	61,692	50,220	11,472
Net pension liability	3,784,833	1,687,334	2,097,499	474,782	292,357	182,425
General obligation special assessment bonds	-	1,505,000	(1,505,000)	-	-	-
General obligation revenue bonds	6,085,000	4,079,000	2,006,000	9,823,912	9,727,910	96,002
Total	<u>\$10,087,313</u>	<u>\$ 7,490,443</u>	<u>\$ 2,596,870</u>	<u>\$10,391,842</u>	<u>\$10,108,998</u>	<u>\$ 282,844</u>

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3F starting on page 62 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

- Property values appear to have stabilized and the City is continuing to see Commercial/Industrial growth.
- The City will continue to monitor utility fees to ensure that charges are sufficient to cover costs in the Water and Disposal funds.
- The City will continue to update and monitor its Financial Management Plan to ensure that the numerous scheduled capital projects can be completed as budgeted.
- The City will continue to investigate grant opportunities or seek legislative funding for capital projects to minimize the financial impact on City budgets and utility rates.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant City Administrator, City of Cannon Falls, 918 River Road, Cannon Falls, MN 55009.

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF CANNON FALLS  
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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CITY OF CANNON FALLS, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015

	Primary Government			Component Uni
	Governmental	Business-type		Economic
	Activities	Activities	Total	Development
				Authority
<b>ASSETS</b>				
Cash and temporary investments	\$ 4,501,518	\$ 2,659,040	\$ 7,160,558	\$ 140,550
Receivables				
Accrued interest	908	816	1,724	22
Taxes	85,734	-	85,734	-
Accounts, net of allowance	96,692	505,016	601,708	20,709
Special assessments	1,693,365	1,287,074	2,980,439	-
Loans	-	-	-	308,186
Contract for deed	11,225	-	11,225	188,795
Inventories, at cost	-	6,680	6,680	-
Prepaid items	43,416	16,964	60,380	152
Net pension asset	61,731	-	61,731	-
Capital assets				
Land and construction in progress	2,127,659	1,327,795	3,455,454	734,124
Depreciable buildings, property, and equipment, net	12,929,783	21,295,299	34,225,082	-
<b>TOTAL ASSETS</b>	<b>21,552,031</b>	<b>27,098,684</b>	<b>48,650,715</b>	<b>1,392,538</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred pension resources	2,193,636	170,981	2,364,617	24,902
<b>LIABILITIES</b>				
Accounts and contracts payable	349,630	54,334	403,964	1,536
Accrued interest payable	72,778	115,353	188,131	-
Due to other governments	-	1,987	1,987	-
Accrued salaries payable	60,190	25,484	85,674	3,287
Deposits payable	75,194	-	75,194	-
Unearned revenue	32,200	-	32,200	-
Noncurrent liabilities				
Due within one year	783,870	1,202,787	1,986,657	5,405
Due in more than one year	9,303,443	9,189,055	18,492,498	85,364
<b>TOTAL LIABILITIES</b>	<b>10,677,305</b>	<b>10,589,000</b>	<b>21,266,305</b>	<b>95,592</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred pension resources	474,033	52,950	526,983	7,712
<b>NET POSITION</b>				
Net investment in capital assets	8,940,987	12,767,726	21,708,713	734,124
Restricted for				
Debt service	2,705,809	-	2,705,809	-
Cable television	126,180	-	126,180	-
Park improvements	25,046	-	25,046	-
Unrestricted	796,307	3,859,989	4,656,296	580,012
<b>TOTAL NET POSITION</b>	<b>\$ 12,594,329</b>	<b>\$ 16,627,715</b>	<b>\$ 29,222,044</b>	<b>\$ 1,314,136</b>

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

CITY OF CANNON FALLS, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 774,247	\$ 167,662	\$ -	\$ -
Public safety	1,720,434	158,517	117,765	-
Public works	1,049,025	-	-	558,501
Culture and recreation	991,255	233,294	118,185	-
Economic development	4,490	-	-	-
Miscellaneous	95,247	-	-	-
Interest on long-term debt	132,897	-	-	-
Total governmental activities	<u>4,767,595</u>	<u>559,473</u>	<u>235,950</u>	<u>558,501</u>
Business-type activities				
Water Utility	760,241	746,837	-	47,157
Disposal	1,161,063	1,366,262	-	92,323
Storm Water	57,434	144,426	-	-
Recycling Program	72,655	87,779	-	-
Ambulance	727,593	777,229	4,982	-
Deputy Registrar	135,274	118,275	-	-
Total business-type activities	<u>2,914,260</u>	<u>3,240,808</u>	<u>4,982</u>	<u>139,480</u>
Total primary government	<u>\$ 7,681,855</u>	<u>\$ 3,800,281</u>	<u>\$ 240,932</u>	<u>\$ 697,981</u>
Component unit				
Economic Development Authority	<u>\$ 157,278</u>	<u>\$ 14,013</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues, contributions and transfers

Taxes

Property taxes, levied for general purpose

Property taxes, levied for debt service

Property taxes, for economic development

Property taxes, for library

Property taxes, for public safety

Payments in lieu of property taxes

Franchise tax

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Transfers - internal activities

Total general revenues, contributions and transfers

Change in net position

Net position, January 1

Prior period adjustment

Net position, December 31

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Authority
\$ (606,585)	\$ -	\$ (606,585)	\$ -
(1,444,152)	-	(1,444,152)	-
(490,524)	-	(490,524)	-
(639,776)	-	(639,776)	-
(4,490)	-	(4,490)	-
(95,247)	-	(95,247)	-
(132,897)	-	(132,897)	-
(3,413,671)	-	(3,413,671)	-
-	33,753	33,753	-
-	297,522	297,522	-
-	86,992	86,992	-
-	15,124	15,124	-
-	54,618	54,618	-
-	(16,999)	(16,999)	-
-	471,010	471,010	-
(3,413,671)	471,010	(2,942,661)	-
			(143,265)
1,379,347	-	1,379,347	-
392,051	-	392,051	-
-	-	-	137,625
321,250	-	321,250	-
115,923	-	115,923	-
538,563	-	538,563	-
30,662	-	30,662	-
646,998	-	646,998	-
30,536	17,518	48,054	227
155,150	(155,150)	-	-
3,610,480	(137,632)	3,472,848	137,852
196,809	333,378	530,187	(5,413)
12,397,520	16,253,117	28,650,637	1,319,549
-	41,220	41,220	-
<u>\$ 12,594,329</u>	<u>\$ 16,627,715</u>	<u>\$ 29,222,044</u>	<u>\$ 1,314,136</u>

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

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**FUND FINANCIAL STATEMENTS**

CITY OF CANNON FALLS  
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

CITY OF CANNON FALLS , MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

	General	Debt Service	2016 Street Improvement Westside Phase II	Other Governmental	Total Governmental
<b>ASSETS</b>					
Cash and temporary investments	\$ 2,107,987	\$ 1,226,972	\$ 273,286	\$ 893,273	\$ 4,501,518
Receivables					
Accrued interest	898	-	-	10	908
Taxes	85,734	-	-	-	85,734
Accounts	74,903	-	-	21,789	96,692
Special assessments	124,813	1,551,615	-	16,937	1,693,365
Contract for deed	11,225	-	-	-	11,225
Prepaid items	36,595	-	-	6,821	43,416
<b>TOTAL ASSETS</b>	<u>\$ 2,442,155</u>	<u>\$ 2,778,587</u>	<u>\$ 273,286</u>	<u>\$ 938,830</u>	<u>\$ 6,432,858</u>
<b>LIABILITIES</b>					
Accounts and contracts payable	\$ 65,972	\$ -	\$ 275,846	\$ 7,812	\$ 349,630
Accrued salaries payable	51,977	-	-	8,213	60,190
Unearned revenue	-	-	-	32,200	32,200
Deposits payable	75,194	-	-	-	75,194
<b>TOTAL LIABILITIES</b>	<u>193,143</u>	<u>-</u>	<u>275,846</u>	<u>48,225</u>	<u>517,214</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - property taxes	50,867	-	-	-	50,867
Unavailable revenue - special assessments	111,556	1,437,690	-	15,298	1,564,544
Unavailable revenue - contracts for deed	11,225	-	-	-	11,225
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>173,648</u>	<u>1,437,690</u>	<u>-</u>	<u>15,298</u>	<u>1,626,636</u>
<b>FUND BALANCES</b>					
Nonspendable	36,595	-	-	6,821	43,416
Restricted	-	1,340,897	-	151,226	1,492,123
Committed	-	-	-	476,226	476,226
Assigned	-	-	-	241,034	241,034
Unassigned	2,038,769	-	(2,560)	-	2,036,209
<b>TOTAL FUND BALANCES</b>	<u>2,075,364</u>	<u>1,340,897</u>	<u>(2,560)</u>	<u>875,307</u>	<u>4,289,008</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 2,442,155</u>	<u>\$ 2,778,587</u>	<u>\$ 273,286</u>	<u>\$ 938,830</u>	<u>\$ 6,432,858</u>

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

CITY OF CANNON FALLS, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

Amounts reported for governmental activities in the statement of net position are different because

Total fund balances - governmental funds	\$ 4,289,008
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental fund.	
Cost of capital assets	23,137,386
Less: accumulated depreciation	(8,079,944)
Long-term assets from pensions reported in governmental activities are not financial resources and therefore are not reported as assets in the funds	61,731
Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Noncurrent liabilities at year-end consist of	
Bond principal payable	(6,085,000)
Capital lease payable	(31,455)
Compensated absences payable	(186,025)
Pension liability	(3,784,833)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable revenue in the funds.	
Delinquent taxes receivable	50,867
Special assessments receivable	1,564,544
Contract for deed receivable	11,225
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	2,193,636
Deferred inflows of pension resources	(474,033)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(72,778)</u>
Total net position - governmental activities	<u><u>\$ 12,594,329</u></u>

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

CITY OF CANNON FALLS, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Debt Service	2016 Street Improvement Westside Phase II	Other Governmental	Total Governmental
REVENUES					
Taxes	\$ 1,969,263	\$ 392,051	\$ -	\$ 467,835	\$ 2,829,149
Licenses and permits	57,622	-	-	-	57,622
Intergovernmental	707,676	-	-	163,309	870,985
Charges for services	58,595	-	-	89,112	147,707
Fines and forfeitures	28,889	-	-	6,583	35,472
Special assessments	22,282	385,777	-	115,986	524,045
Interest on investments	27,723	1,081	1,504	228	30,536
Miscellaneous	292,987	-	-	26,085	319,072
<b>TOTAL REVENUES</b>	<b>3,165,037</b>	<b>778,909</b>	<b>1,504</b>	<b>869,138</b>	<b>4,814,588</b>
EXPENDITURES					
Current					
General government	708,330	-	-	-	708,330
Public safety	1,022,006	-	-	235,801	1,257,807
Public works	631,962	-	-	-	631,962
Culture and recreation	435,009	-	-	424,093	859,102
Miscellaneous	95,247	-	-	-	95,247
Capital outlay					
General government	1,402	-	-	-	1,402
Public safety	3,819	-	-	43,335	47,154
Public works	1,750	-	1,188,888	32,486	1,223,124
Culture and recreation	-	-	-	33,672	33,672
Debt service					
Principal	7,055	729,000	-	-	736,055
Interest and service charges	2,292	104,781	-	-	107,073
<b>TOTAL EXPENDITURES</b>	<b>2,908,872</b>	<b>833,781</b>	<b>1,188,888</b>	<b>769,387</b>	<b>5,700,928</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	256,165	(54,872)	(1,187,384)	99,751	(886,340)
OTHER FINANCING SOURCES (USES)					
Transfers in	23,660	396,400		152,343	572,403
Bonds issued	-	15,217	1,214,783	-	1,230,000
Transfers out	(371,475)	(27,168)	-	(18,610)	(417,253)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(347,815)</b>	<b>384,449</b>	<b>1,214,783</b>	<b>133,733</b>	<b>1,385,150</b>
NET CHANGE IN FUND BALANCES	(91,650)	329,577	27,399	233,484	498,810
FUND BALANCES, JANUARY 1	2,167,014	1,011,320	(29,959)	641,823	3,790,198
FUND BALANCES, DECEMBER 31	\$ 2,075,364	\$ 1,340,897	\$ (2,560)	\$ 875,307	\$ 4,289,008

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



CITY OF CANNON FALLS, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

Amounts reported for governmental activities in the statement of activities are different because

Net change in fund balances - governmental funds	\$ 498,810
Capital outlays and sales are reported in governmental funds as expenditures and proceeds. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense and the proceeds are reported as reductions of net position and gains or losses on sales.	
Capital outlays	1,254,833
Depreciation expense	(711,848)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Principal payments	729,000
Capital lease principal payments	7,055
Bonds issued	(1,230,000)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(25,824)
Long-term pension activity is not reported in governmental funds.	
Pension expense	(321,399)
Direct aid contributions	11,432
Certain revenues are recognized as soon as earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.	
Property taxes	(51,353)
Special assessments	46,019
Contract for deed	(4,490)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(5,426)
Change in net position - governmental activities	<u>\$ 196,809</u>

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

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CITY OF CANNON FALLS, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Taxes	\$ 1,916,117	\$ 1,916,117	\$ 1,969,263	\$ 53,146
Licenses and permits	51,600	51,600	57,622	6,022
Intergovernmental	688,683	688,683	707,676	18,993
Charges for services	56,300	56,300	58,595	2,295
Fines and forfeitures	24,000	24,000	28,889	4,889
Special assessments	17,200	17,200	22,282	5,082
Interest on investments	4,100	4,100	27,723	23,623
Miscellaneous	255,855	255,855	292,987	37,132
TOTAL REVENUES	3,013,855	3,013,855	3,165,037	151,182
EXPENDITURES				
Current				
General government	763,590	763,590	708,330	55,260
Public safety	1,006,325	1,006,325	1,022,006	(15,681)
Public works	645,925	645,925	631,962	13,963
Culture and recreation	429,240	429,240	435,009	(5,769)
Miscellaneous	78,800	78,800	95,247	(16,447)
Capital outlay	14,900	14,900	6,971	7,929
Debt service				
Capital lease				
Principal	7,675	7,675	7,055	620
Interest	1,700	1,700	2,292	(592)
TOTAL EXPENDITURES	2,948,155	2,948,155	2,908,872	39,283
EXCESS OF REVENUES OVER EXPENDITURES	65,700	65,700	256,165	190,465
OTHER FINANCING SOURCES (USES)				
Transfers in	16,450	16,450	23,660	7,210
Transfers out	(111,475)	(111,475)	(371,475)	(260,000)
TOTAL OTHER FINANCING SOURCES (USES)	(95,025)	(95,025)	(347,815)	(252,790)
NET CHANGE IN FUND BALANCES	(29,325)	(29,325)	(91,650)	(62,325)
FUND BALANCES, JANUARY 1	2,167,014	2,167,014	2,167,014	-
FUND BALANCES, DECEMBER 31	\$ 2,137,689	\$ 2,137,689	\$ 2,075,364	\$ (62,325)

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

CITY OF CANNON FALLS, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds				
	Water Utility	Disposal	Ambulance	Nonmajor Enterprise funds	Totals
ASSETS					
CURRENT ASSETS					
Cash and temporary investments	\$ 1,146,030	\$ 774,561	\$ 347,143	\$ 391,306	\$ 2,659,040
Receivables					
Accrued interest	541	148	10	117	816
Accounts, net of allowance	108,221	160,550	211,708	24,537	505,016
Special assessments	109,298	118,522	-	8,267	236,087
Inventories, at cost	3,340	3,340	-	-	6,680
Prepaid items	2,421	4,897	9,519	127	16,964
TOTAL CURRENT ASSETS	1,369,851	1,062,018	568,380	424,354	3,424,603
NONCURRENT ASSETS					
Special assessments receivable	570,069	480,918	-	-	1,050,987
Capital assets					
Land and construction in progress	697,910	438,277	-	191,608	1,327,795
Depreciable buildings, property, and equipment	13,323,868	19,385,976	761,944	1,044,998	34,516,786
Accumulated depreciation	(5,476,558)	(7,210,748)	(400,007)	(134,174)	(13,221,487)
Total net capital assets	8,545,220	12,613,505	361,937	1,102,432	22,623,094
TOTAL NONCURRENT ASSETS	9,115,289	13,094,423	361,937	1,102,432	23,674,081
TOTAL ASSETS	10,485,140	14,156,441	930,317	1,526,786	27,098,684
DEFERRED OUTFLOWS OF RESOURCES					
Deferred pension resources	32,943	37,942	75,468	24,628	170,981

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

CITY OF CANNON FALLS, MINNESOTA  
STATEMENT OF NET POSITION - CONTINUED  
PROPRIETARY FUNDS  
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds				Totals
	Water Utility	Disposal	Ambulance	Nonmajor Enterprise funds	
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts and contracts payable	\$ 21,562	\$ 13,616	\$ 19,156	\$ -	\$ 54,334
Accrued interest payable	40,728	65,657	-	8,968	115,353
Due to other governments	1,987	-	-	-	1,987
Accrued salaries payable	3,493	4,792	13,756	3,443	25,484
Compensated absences payable	2,585	3,758	7,367	1,713	15,423
Capital lease payable	-	-	-	7,364	7,364
Bonds payable	374,315	786,204	-	19,481	1,180,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>444,670</b>	<b>874,027</b>	<b>40,279</b>	<b>40,969</b>	<b>1,399,945</b>
<b>NONCURRENT LIABILITIES</b>					
Compensated absences payable	7,755	11,273	22,102	5,139	46,269
Capital lease payable	-	-	-	24,092	24,092
Bonds payable	2,884,267	5,180,316	-	579,329	8,643,912
Pension liability	91,476	105,358	209,560	68,388	474,782
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>2,983,498</b>	<b>5,296,947</b>	<b>231,662</b>	<b>676,948</b>	<b>9,189,055</b>
<b>TOTAL LIABILITIES</b>	<b>3,428,168</b>	<b>6,170,974</b>	<b>271,941</b>	<b>717,917</b>	<b>10,589,000</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred pension resources	10,202	11,750	23,371	7,627	52,950
<b>NET POSITION</b>					
Net investment in capital assets	5,286,638	6,646,985	361,937	472,166	12,767,726
Unrestricted	1,793,075	1,364,674	348,536	353,704	3,859,989
<b>TOTAL NET POSITION</b>	<b>\$ 7,079,713</b>	<b>\$ 8,011,659</b>	<b>\$ 710,473</b>	<b>\$ 825,870</b>	<b>\$ 16,627,715</b>

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

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CITY OF CANNON FALLS, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds				
	Water Utility	Disposal	Ambulance	Nonmajor Enterprise funds	Totals
OPERATING REVENUES					
Charges for services	\$ 746,837	\$ 1,366,262	\$ 777,229	\$ 347,589	\$ 3,237,917
OPERATING EXPENSES					
Personnel services	157,411	182,770	499,771	116,045	955,997
Supplies	24,246	35,079	63,912	2,032	125,269
Repairs and maintenance	27,707	29,586	17,233	408	74,934
Depreciation	360,339	515,834	68,612	33,117	977,902
Rent	-	-	-	16,950	16,950
Insurance	2,276	10,567	2,423	-	15,266
Utilities	60,434	119,894	16,702	-	197,030
Other services and charges	33,548	82,008	58,940	79,099	253,595
TOTAL OPERATING EXPENSES	665,961	975,738	727,593	247,651	2,616,943
OPERATING INCOME	80,876	390,524	49,636	99,938	620,974
NONOPERATING REVENUES (EXPENSES)					
Interest on investments	9,175	7,059	595	689	17,518
Other income	-	-	4,982	2,891	7,873
Bond issuance costs	(3,554)	(2,553)	-	(1,116)	(7,223)
Interest expense	(90,726)	(182,772)	-	(16,596)	(290,094)
TOTAL NONOPERATING REVENUES (EXPENSES)	(85,105)	(178,266)	5,577	(14,132)	(271,926)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(4,229)	212,258	55,213	85,806	349,048
CAPITAL CONTRIBUTIONS	47,157	38,323	-	-	85,480
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	-	54,000	-	-	54,000
TRANSFERS IN	-	-	6,300	-	6,300
TRANSFERS OUT	(115,475)	(40,475)	(2,750)	(2,750)	(161,450)
CHANGE IN NET POSITION	(72,547)	264,106	58,763	83,056	333,378
NET POSITION, JANUARY 1	7,152,260	7,747,553	610,490	742,814	16,253,117
PRIOR PERIOD RESTATEMENT	-	-	41,220	-	41,220
NET POSITION, DECEMBER 31	\$ 7,079,713	\$ 8,011,659	\$ 710,473	\$ 825,870	\$ 16,586,495

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

CITY OF CANNON FALLS, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds				
	Water Utility	Disposal	Ambulance	Nonmajor Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 717,130	\$ 1,337,840	\$ 735,383	\$ 351,259	\$ 3,141,612
Payments to suppliers	(184,744)	(349,322)	(218,833)	(123,757)	(876,656)
Payments to employees	(125,466)	(154,968)	(402,380)	(89,311)	(772,125)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	406,920	833,550	114,170	138,191	1,492,831
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES					
Transfers in	-	-	6,300	-	6,300
Transfers out	(115,475)	(40,475)	(2,750)	(2,750)	(161,450)
NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	(115,475)	(40,475)	3,550	(2,750)	(155,150)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Permits and connection fees received	3,336	1,164	-	-	4,500
Special assessments received	206,428	188,657	-	-	395,085
Acquisition of capital assets	(628,820)	(474,121)	(199,104)	(191,608)	(1,493,653)
Proceeds from bonds issued	615,025	441,818	-	193,157	1,250,000
Bond issuance costs paid	(3,554)	(2,553)	-	(1,116)	(7,223)
Principal paid on capital leases	-	-	-	(7,055)	(7,055)
Principal paid on bonds	(369,314)	(765,202)	-	(19,482)	(1,153,998)
Interest paid on bonds and capital leases	(86,029)	(184,999)	-	(14,528)	(285,556)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(262,928)	(795,236)	(199,104)	(40,632)	(1,297,900)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received from investments	8,808	7,244	708	648	17,408
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,325	5,083	(80,676)	95,457	57,189
CASH AND CASH EQUIVALENTS, JANUARY 1	1,108,705	769,478	427,819	295,849	2,601,851
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 1,146,030	\$ 774,561	\$ 347,143	\$ 391,306	\$ 2,659,040

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



CITY OF CANNON FALLS, MINNESOTA  
STATEMENT OF CASH FLOWS - CONTINUED  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds				
	Water Utility	Disposal	Ambulance	Nonmajor Enterprise Funds	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income	\$ 80,876	\$ 390,524	\$ 49,636	\$ 99,938	\$ 620,974
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Other income	-	-	4,982	2,891	7,873
Depreciation	360,339	515,834	68,612	33,117	977,902
(Increase) decrease in assets/deferred outflows of resources					
Accounts receivable	(29,707)	(28,422)	(46,828)	(2,073)	(107,030)
Special assessments receivable	-	-	-	2,852	2,852
Inventory	113	113	-	-	226
Prepaid items	(631)	(871)	(1,845)	5	(3,342)
Deferred pension resources	(26,317)	(29,224)	(61,815)	(19,651)	(137,007)
Increase (decrease) in liabilities/deferred inflows of resources					
Accounts and contracts payable	(11,565)	(46,257)	2,663	(5,622)	(60,781)
Due to other governments	60	-	-	-	60
Accrued salaries payable	811	698	3,545	778	5,832
Compensated absences payable	289	4,870	4,525	1,788	11,472
Deferred pension resources	(1,807)	(4,051)	(1,374)	(1,393)	(8,625)
Pension liability	34,459	30,336	92,069	25,561	182,425
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 406,920</u>	<u>\$ 833,550</u>	<u>\$ 114,170</u>	<u>\$ 138,191</u>	<u>\$ 1,492,831</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital assets contributed by developers	<u>\$ -</u>	<u>\$ 54,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,000</u>

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

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CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

The City of Cannon Falls, Minnesota (the City), operates under a home rule charter form of government as defined in the State of Minnesota statutes, which is termed the "Mayor-City Council Plan." The City is governed by an elected Mayor and a six-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Component units for which the City has been determined to be financially accountable can be blended with the primary government or be included as a discrete presentation. Included in the City's reporting entity, based upon the application of these criteria, is the following discretely presented component unit. The discretely presented component unit is reported in a separate column in the government-wide financial statements.

*Economic Development Authority.* The Economic Development Authority (EDA) of the City was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment consistent with policies established by the City Council. The EDA is governed by five board members, two of which are City Council members and three are at-large members. The City Council appoints the EDA governing board and approves tax levies. The City does not have fiduciary responsibility for the EDA. It is this criterion that results in the EDA being reported as a discretely presented component unit. The EDA does not prepare separate financial statements. The EDA fund financial statements begin on page 114.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current 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 City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The following major governmental funds meet the criteria described above:

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

The *Debt Service* fund is used for the servicing of governmental long-term debt not being financed by the proprietary fund.

The *2016 Street Improvement Westside Phase II* fund accounts for the street improvement project.

The City reports the following major proprietary funds:

The *Water Utility* fund is used for the activities of the water distribution system the City maintains.

The *Disposal* fund is used for the activities of the City's sewage collection operations.

The *Ambulance* fund is used for the activities related to the ambulance and emergency services the City provides.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position/fund balance**

*Deposits and investments*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the Statement of Cash Flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes and the City's investment policy as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (1) above.
3. Minnesota Municipal Money Market fund and certificates of deposit with preference to local financial institutions.
4. Commercial paper issued by United States banks, corporations, or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less rated by at least two of the three rating agencies. (Moody's, A-1/ Standard and Poor's, P-1/ Fitches, F-1)

It is the City's policy to invest in a manner which seeks to insure the preservation of capital. Safety of principal is the foremost objective, but liquidity and yield are also important considerations. It is essential that cash is available when needed, therefore the goal is to maximize yield while matching maturity dates with expenditure needs. All participating in the investment process shall seek to act responsibly as custodians of the public trust.

It is the policy of the City to invest available fund at the highest rates attainable at the time of the investment, however giving preference to local financial institutions where the highest local bid is not more than .25 percent less than the non-local investment.

Investments may be held in safekeeping with any federal reserve bank, any bank authorized under laws of the United States or any state to exercise corporate trust powers, including but not limited to the bank from which it is purchased. The City's ownership of all securities shall be evidenced by a written acknowledge identifying the securities by name of issue, maturity date, interest rate and serial number or other distinguishing mark.

The Minnesota Municipal Money Market Fund (4M) operates in accordance with appropriate state laws and regulations. The 4M fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities and Exchange Commission (SEC); however, it follows the same regulatory rules of the SEC under rule 2a7. The reported value of the pool is the same as the fair value of the pool shares. Financial statements of the 4M Fund can be obtained by contacting RBC Global Asset Management (U.S.) Inc. at 100 South Fifth Street Suite 2300, Minneapolis, MN 55402-1240.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of December 31, 2016:

- Negotiable certificates of deposits of \$2,547,638 are valued using a matrix pricing model (Level 2 inputs).

***Accounts receivable***

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2016. The City annually certifies delinquent water and disposal accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established for water and disposal funds. The Ambulance fund has an allowance for uncollectible accounts set at 25 percent of the outstanding balance. This amount totaled \$70,403 as of December 31, 2016.

***Property taxes***

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

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes receivable have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the governmental fund financial statements.

***Special assessments***

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end and when the following years levy is certified. All other governmental special assessments receivable not received within 60 days after year end are offset by a deferred inflow of resources in the fund financial statements.

***Interfund receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

***Prepaid items***

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

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***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, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years for equipment and \$1,000 for land. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Useful Lives in Years</u>
Land improvements	5 to 30
Buildings and improvements	15 to 40
System improvements/infrastructure	15 to 50
Machinery and equipment	3 to 20
Vehicles	3 to 15

***Deferred outflows of resources***

In addition to assets, the statement of net position 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.



CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***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 except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plan administered by Cannon Falls Fire Department Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value.

***Compensated absences***

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick leave, which is paid to the employee upon separation. In governmental fund types, the cost of these benefits is recognized when payments are made to the employees. Employees can accumulate to a total of 320 hours of vacation and 960 hours of sick leave. Proprietary fund types accrue vacation and sick leave in the period it is earned. A liability of \$247,717 represents accrued vacation and sick leave unused at year end for the governmental and business-type activities. The General fund is typically used to liquidate governmental fund compensated absences. The liability in the discretely presented component unit totals \$21,620.

***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. The recognition of bond premiums and discounts are delayed and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized 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.

***Deferred inflows of resources***

In addition to liabilities, the statement of net position and fund financial statements 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, special assessments and contract for deed receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Fund balance***

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

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

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

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

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

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

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

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 40-50 percent of budgeted operating expenditures for cash-flow timing needs.

***Net position***

In the government-wide financial statements, net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

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

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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 the General, special revenue and certain Debt Service funds. All annual appropriations lapse at fiscal yearend. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 30<sup>th</sup>, the proposed budget is presented to the City Council for review. The City Council adopts a preliminary maximum budget. Truth-in-taxation notices are mailed out to residents by the County. The City Council holds public hearings and adopts a budget and tax levy in December.

The appropriated budget is prepared by fund, function and department. The City's Administrator may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. There were no budget amendments made during 2016.

**B. Excess of expenditures over appropriations**

For the year ended December 31, 2016, expenditures exceeded appropriations in the following funds:

Fund	Final Budgeted Amounts	Actual Amounts	Excess of Expenditures Over Appropriations
Component unit			
Economic Development fund	\$ 137,625	\$ 148,096	\$ 10,471

These over-expenditures were funded by available fund balance.

**C. Deficit fund equity**

The following funds had fund equity deficits at December 31, 2016:

Fund	Amount
Capital project	
2016 Street Improvement Westside Phase II	\$ 2,560
Enterprise fund	
Deputy Registrar	72,411

The deficits will be eliminated with future transfers.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by Minnesota statutes. Each fund's portion of this pool (or pools) is displayed on the financial statements as "cash and investments." For purposes of identifying the risk of investing public funds, the balances are categorized as follows:

***Deposits***

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$3,671,184 and the bank balance was \$3,752,551. The bank balance was covered by federal depository insurance totaling \$2,990,551, with the remainder covered by collateral held by the City's agent in the City's name.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

***Investments***

Investments are carried at fair value. Investment and dividend income are recognized as revenue when earned. The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the City's investment policy limit the City's investments.
- *Custodial Credit Risk.* Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. The City is exposed to custodial credit risk in relation to the CDs invested in the CDARS program.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount that may be invested in any one issuer.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy limits its exposure to interest rate risk.

At year end, the City's investment balances were as follows:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled investments at amortized costs						
4M Fund	N/A	Less than 6 months	\$1,081,731			
Non-pooled investments at fair value						
Negotiable CDs	N/A	Less than 6 months	1,141,924	\$ -	\$1,141,924	\$ -
Negotiable CDs	N/A	6 months to 1 year	225,025	-	225,025	-
Negotiable CDs	N/A	1 to 3 years	880,197	-	880,197	-
Negotiable CDs	N/A	More than 3 years	300,492	-	300,492	-
Total investments			\$3,629,369	\$ -	\$2,547,638	\$ -

(1) Ratings are provided by Standard & Poors agency where applicable to indicate associated credit risk.

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

N/A Indicates not applicable or available.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

A reconciliation of cash and temporary investments as shown on the statement of net position for the City follows:

Carrying amount of deposits	\$ 3,671,184
Investments	3,629,369
Cash on hand	<u>555</u>
Total	<u><u>\$ 7,301,108</u></u>
As reported in the financial statements	
Statement of net position	
Primary government	
Governmental activities	
Cash and temporary investments	\$ 4,501,518
Business-type activities	
Cash and temporary investments	2,659,040
Component unit	
Economic Development Authority	
Cash and temporary investments	<u>140,550</u>
Total	<u><u>\$ 7,301,108</u></u>

**B. Loans receivable**

***Economic Development Authority***

On December 1, 2010, the EDA authorized a loan up to \$75,000 to Sibley Engineering at the rate of 3 percent per year. The loan is due February 1, 2016. Monthly payments of \$518 are due beginning March 1, 2011. The outstanding balance as of December 31, 2016 was \$49,755.

On November 29, 2012, the EDA loaned \$150,000 to ArtOrg at the rate of 3 percent per year. The loan is due November 29, 2017. Monthly payments of \$1,035.87 are due beginning December 29, 2012. The outstanding balance as of December 31, 2016 was \$114,906.

On July 13, 2016, the EDA loaned \$150,000 to Tillion Brewing Company at the rate of 3 percent a year. The loan is due on July 13, 2026. Monthly payments of \$1,449 are due beginning August 13, 2016. The outstanding balance at December 31, 2016 was \$143,525.

The total loan receivable balance as of December 31, 2016 was \$308,186.

**C. Contract for deed receivable**

On March 15, 2012, the City entered into a contract for deed with S&S Investment Properties, LLP for the purchase of land for \$31,430 with an interest rate of 3 percent per year. The loan is due March 1, 2019. Semi-annual payments of \$2,245 were due beginning September 1, 2012. The outstanding balance as of December 31, 2016 was \$11,225.

On January 15, 2013, the EDA entered into a contract for deed with World Food Processing, LLC for the purchase of land for \$231,000 with an interest rate of 4 percent per year. The loan is due January 15, 2018. Semi-annual payments of \$10,354 were due beginning July 15, 2013. The outstanding balance as of December 31, 2016 was \$188,795.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**D. Capital assets**

*Primary government*

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 908,474	\$ 5,872	\$ -	\$ 914,346
Construction in progress	33,117	1,180,196	-	1,213,313
Total capital assets not being depreciated	941,591	1,186,068	-	2,127,659
Capital assets being depreciated				
Buildings and improvements	4,872,561	-	-	4,872,561
System improvements/infrastructure	11,607,843	-	-	11,607,843
Machinery and equipment	1,768,130	27,729	-	1,795,859
Vehicles	2,692,428	41,036	-	2,733,464
Total capital assets being depreciated	20,940,962	68,765	-	21,009,727
Less accumulated depreciation for				
Buildings and improvements	(1,341,404)	(116,539)	-	(1,457,943)
System improvements/infrastructure	(3,207,609)	(360,325)	-	(3,567,934)
Machinery and equipment	(1,001,826)	(94,074)	-	(1,095,900)
Vehicles	(1,817,257)	(140,910)	-	(1,958,167)
Total accumulated depreciation	(7,368,096)	(711,848)	-	(8,079,944)
Total capital assets being depreciated, net	13,572,866	(643,083)	-	12,929,783
Governmental activities capital assets, net	<u>\$ 14,514,457</u>	<u>\$ 542,985</u>	<u>\$ -</u>	<u>\$ 15,057,442</u>

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

<b>Governmental activities</b>	
General government	\$ 47,828
Public safety	184,172
Public works	395,555
Culture and recreation	84,293
Total depreciation expense - governmental activities	<u>\$ 711,848</u>

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 87,816	\$ -	\$ -	\$ 87,816
Construction in progress	-	1,239,979	-	1,239,979
	<u>87,816</u>	<u>1,239,979</u>	<u>-</u>	<u>1,327,795</u>
Total capital assets not being depreciated	<u>87,816</u>	<u>1,239,979</u>	<u>-</u>	<u>1,327,795</u>
Capital assets being depreciated				
Buildings and improvements	15,980	-	-	15,980
System improvements/infrastructure	32,773,942	72,726	-	32,846,668
Machinery and equipment	973,231	47,471	-	1,020,702
Vehicles	545,834	187,477	(99,875)	633,436
	<u>34,308,987</u>	<u>307,674</u>	<u>(99,875)</u>	<u>34,516,786</u>
Total capital assets being depreciated	<u>34,308,987</u>	<u>307,674</u>	<u>(99,875)</u>	<u>34,516,786</u>
Less accumulated depreciation for				
Buildings and improvements	(9,514)	(534)	-	(10,048)
System improvements/infrastructure	(11,353,446)	(856,029)	-	(12,209,475)
Machinery and equipment	(601,176)	(63,822)	-	(664,998)
Vehicles	(379,324)	(57,517)	99,875	(336,966)
	<u>(12,343,460)</u>	<u>(977,902)</u>	<u>99,875</u>	<u>(13,221,487)</u>
Total accumulated depreciation	<u>(12,343,460)</u>	<u>(977,902)</u>	<u>99,875</u>	<u>(13,221,487)</u>
Total capital assets being depreciated, net	<u>21,965,527</u>	<u>(670,228)</u>	<u>-</u>	<u>21,295,299</u>
Business-type activities capital assets, net	<u>\$ 22,053,343</u>	<u>\$ 569,751</u>	<u>\$ -</u>	<u>\$ 22,623,094</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

<b>Business-type activities</b>	
Water Utility	\$ 360,339
Disposal	515,834
Ambulance	68,612
Storm Water	<u>33,117</u>
Total depreciation expense - business-type activities	<u>\$ 977,902</u>



CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

*Discretely presented component units*

Activity for the Economic Development Authority for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 734,124	\$ -	\$ -	\$ 734,124

**E. Transfers**

*Interfund transfers*

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

Fund	Transfers in				Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Ambulance Fund	
Transfer out					
General	\$ -	\$ 260,000	\$ 105,175	\$ 6,300	\$ 371,475
Debt Service	-	-	27,168	-	27,168
Nonmajor governmental	7,210	11,400	-	-	18,610
Water Utility	5,475	100,000	10,000	-	115,475
Disposal	5,475	25,000	10,000	-	40,475
Ambulance	2,750	-	-	-	2,750
Nonmajor enterprise	2,750	-	-	-	2,750
Total	\$ 23,660	\$ 396,400	\$ 152,343	\$ 6,300	\$ 578,703

During the year, transfers are used to 1) reimburse the General fund for information technology cost and 2) move General fund resources to provide funds for future capital purchases. Further, during the year ended December 31, 2016, the City made the following one-time transfers:

- A transfer of \$7,210 from nonmajor governmental funds to the General fund for project costs.
- A transfer of \$11,400 from nonmajor governmental funds to the Debt Service fund for debt related costs.
- A transfer of \$260,000 from the General fund to the Debt Service fund for the City's contribution to support the Library debt.
- A transfer of \$27,168 from the Debt Service fund to the nonmajor governmental fund for prior years special assessment revenue.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**F. Long-term debt**

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for general government activities. In addition, bonds have been issued to refund general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

General obligation improvement bonds

The following bonds were issued to finance various improvements and will be repaid from special assessments levied on the properties benefiting from the improvements and ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2011A	\$ 3,150,000	2.00 - 3.40 %	10/13/11	02/01/32	\$ 2,545,000
G.O. Improvement Bonds of 2012A	932,000	.75 - 2.5	05/01/12	02/01/22	450,000
G.O. Refunding Permanent Bonds of 2012B	3,085,000	1.00 - 1.65	11/28/12	02/01/23	1,940,000
G.O. Improvement Bonds of 2013A	2,575,000	2.00 - 4.00	08/07/13	02/01/34	2,350,000
G.O. Improvement Bonds of 2016A	2,480,000	2.0-2.5	06/30/16	02/01/37	2,480,000
Total G.O. Improvement Bonds					<u>\$ 9,765,000</u>

Annual debt service requirements to maturity for general obligation improvement bonds are as follows:

Year Ending December 31,	G.O. Improvement Bonds Governmental Activities			G.O. Improvement Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 730,000	\$ 123,257	\$ 853,257	\$ 115,000	\$ 105,615	\$ 220,615
2018	632,000	110,491	742,491	170,000	98,980	268,980
2019	633,000	100,931	733,931	175,000	95,530	270,530
2020	650,000	90,624	740,624	180,000	91,824	271,824
2021	527,000	79,992	606,992	185,000	87,793	272,793
2022 - 2026	1,908,000	251,171	2,159,171	970,000	369,056	1,339,056
2027 - 2031	910,000	59,081	969,081	1,130,000	218,008	1,348,008
2032-2036	95,000	1,188	96,188	680,000	53,432	733,432
2037	-	-	-	75,000	1,125	76,125
Total	<u>\$ 6,085,000</u>	<u>\$ 816,735</u>	<u>\$ 6,901,735</u>	<u>\$ 3,680,000</u>	<u>\$ 1,121,363</u>	<u>\$ 4,801,363</u>

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

General obligation revenue bonds

The following bonds were issued to finance expansion to the water and wastewater system. They will be retired with assessments against the benefited properties. They will be repaid from future revenues pledged from the Water and Sewer fund and are backed by the taxing power of the City. For 2016, principal and interest paid and total customer revenues for the Water fund were \$455,343 and \$746,837, respectively. For 2016, principal and interest paid and total customer revenues for the Sewer fund were \$950,201 and \$1,366,262, respectively.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. MN Public Facilities Authority Bond 2001 - Water and Wastewater Improvements	\$ 4,529,000	3.07 %	06/27/01	08/20/21	\$ 1,480,000
G.O. MN Public Facilities Authority Bond 2001 - Wastewater	8,021,909	2.86	11/20/01	08/20/22	2,943,909
G.O. Water Revenue Refunding Bonds - Series 2010A	3,560,000	1.00 - 3.50	12/09/10	08/01/21	1,720,000
Total G.O. Revenue Bonds					<u>\$ 6,143,909</u>

Annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31,	G.O. Revenue Bonds Business-type Activities		
	Principal	Interest	Total
2017	\$ 1,065,000	\$ 181,109	\$ 1,246,109
2018	1,092,000	151,751	1,243,751
2019	1,124,000	120,619	1,244,619
2020	1,152,000	87,023	1,239,023
2021	1,185,000	51,895	1,236,895
2022	525,909	15,041	540,950
Total	<u>\$ 6,143,909</u>	<u>\$ 607,438</u>	<u>\$ 6,751,347</u>

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Capital lease obligation

The City has entered into capital lease agreements for the purchase of equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Sweeper	\$ 145,260	4.30 %	03/25/11	03/25/20	<u>\$ 62,911</u>

Annual debt service requirements to maturity for capital leases are as follows:

Year Ending December 31,	Capital Leases Governmental Activities			Capital Leases Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 7,364	\$ 1,982	\$ 9,346	\$ 7,364	\$ 1,982	\$ 9,346
2018	7,688	1,659	9,347	7,689	1,659	9,348
2019	8,025	1,321	9,346	8,025	1,321	9,346
2020	<u>8,378</u>	<u>969</u>	<u>9,347</u>	<u>8,378</u>	<u>969</u>	<u>9,347</u>
Total	<u>\$ 31,455</u>	<u>\$ 5,931</u>	<u>\$ 37,386</u>	<u>\$ 31,456</u>	<u>\$ 5,931</u>	<u>\$ 37,387</u>

Assets related to the above outstanding capital lease obligations are as follows:

Asset	Governmental Activities	Business-type Activities
Machinery and equipment	\$ 84,251	\$ 84,250
Less: Accumulated depreciation	<u>(32,296)</u>	<u>(32,296)</u>
Total	<u>\$ 51,955</u>	<u>\$ 51,954</u>

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Changes in long-term liabilities

During the year ended December 31, 2016, the following changes in long-term liabilities occurred:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable					
General obligation special					
assessment bonds	\$ 5,584,000	\$ 1,230,000	\$ (729,000)	\$ 6,085,000	\$ 730,000
Capital leases payable	38,510	-	(7,055)	31,455	7,364
Compensated absences payable	180,599	50,576	(45,150)	186,025	46,506
Pension liability					
GERF	1,141,942	1,386,130	(749,826)	1,778,246	-
PEPFF	545,392	2,037,578	(30,991)	2,006,587	-
Governmental activity long-term liabilities	<u>\$ 7,490,443</u>	<u>\$ 4,704,284</u>	<u>\$ (1,562,022)</u>	<u>\$ 10,087,313</u>	<u>\$ 783,870</u>
<b>Business-type activities</b>					
Bonds payable					
General obligation					
revenue bonds	\$ 7,182,910		\$ (1,039,000)	\$ 6,143,910	\$ 1,065,000
General obligation					
improvement bonds	2,545,000	1,250,000	(114,998)	3,680,002	115,000
Capital leases payable	38,511	-	(7,055)	31,456	7,364
Compensated absences payable	50,220	24,027	(12,555)	61,692	15,423
Pension liability					
GERF	292,357	499,449	(24,667)	474,782	-
Business-type activity long-term liabilities	<u>\$ 10,108,998</u>	<u>\$ 1,274,027</u>	<u>\$ (1,173,608)</u>	<u>\$ 10,391,842</u>	<u>\$ 1,202,787</u>
<b>Component unit - EDA</b>					
Compensated absences payable	\$ 15,832	\$ 9,746	\$ (3,958)	\$ 21,620	\$ 5,405
Pension liability					
GERF	47,901	108,965	(39,816)	69,149	-
Component unit long-term liabilities	<u>\$ 63,733</u>	<u>\$ 118,711</u>	<u>\$ (43,774)</u>	<u>\$ 90,769</u>	<u>\$ 5,405</u>

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**G. Fund balance**

At December 31, 2016, portions of the City's fund balance are not available for appropriation due to not being in spendable form (nonspendable), legal restrictions (restricted), City Council action (committed), policy and/or intent (assigned). The following is a summary of the components of fund balance:

	General	Debt Service	Other Governmental Funds	Total
Nonspendable for				
Prepaid items	<u>\$ 36,595</u>	<u>\$ -</u>	<u>\$ 6,821</u>	<u>\$ 43,416</u>
Restricted for				
Debt service	\$ -	\$ 1,340,897	\$ -	\$ 1,340,897
Cable television	-	-	126,180	126,180
Park capital	<u>-</u>	<u>-</u>	<u>25,046</u>	<u>25,046</u>
Total restricted	<u>\$ -</u>	<u>\$ 1,340,897</u>	<u>\$ 151,226</u>	<u>\$ 1,492,123</u>
Committed for				
Fire operations	\$ -	\$ -	\$ 15,883	\$ 15,883
Street capital	-	-	21,447	21,447
Public works capital	-	-	86,124	86,124
Police capital	-	-	12,746	12,746
Fire capital	-	-	192,024	192,024
Administration capital	-	-	52,207	52,207
Park capital	-	-	49,407	49,407
Library capital	<u>-</u>	<u>-</u>	<u>46,388</u>	<u>46,388</u>
Total committed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 476,226</u>	<u>\$ 476,226</u>
Assigned				
Library operations	\$ -	\$ -	\$ 86,054	\$ 86,054
Eastside improvement	-	-	21,550	21,550
Public improvements	<u>-</u>	<u>-</u>	<u>133,430</u>	<u>133,430</u>
Total assigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 241,034</u>	<u>\$ 241,034</u>

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**A. Plan description**

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

General Employees Retirement Plan (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.

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 Minnesota 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 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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.

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 percent of average salary for each of the first ten years of service and 2.7 percent 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 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

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 percent after five years up to 100 percent after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service.

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

**C. Contributions**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the year ending December 31, 2016, 2015 and 2014 were \$136,240 , \$ 130,505 and \$119,821, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

PEPFF contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2016. The City's contributions to the PEPFF for the years ending December 31, 2016, 2015 and 2014 were \$86,782, \$71,922 and \$69,039, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**D. Pension costs**

GERF pension costs

At December 31, 2016, the City reported a liability of \$2,322,178 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$30,356. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0286 percent which was the same proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$345,762 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$9,051 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF



CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

At December 31, 2016, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,497	\$ 188,643
Changes in actuarial assumptions	500,214	-
Net difference between projected and actual earnings on plan investments	259,256	-
Changes in proportion	-	70,336
Contributions to GERF subsequent to the measurement date	69,309	-
	<u>69,309</u>	<u>-</u>
Total	<u>\$ 836,276</u>	<u>\$ 258,979</u>

Deferred outflows of resources totaling \$69,309 related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2017	\$ 126,442
2018	73,416
2019	224,246
2020	83,884
2021	-

PEPFF pension costs

At December 31, 2016, the City reported a liability of \$2,006,587 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.050 percent which was an increase of 0.002 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$304,730 for its proportionate share of PEPFF's pension expense.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

At December 31, 2016, the City reported its proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 491	\$ 233,641
Changes in actuarial assumptions	1,185,479	-
Net difference between projected and actual earnings on plan investments	175,553	-
Changes in proportion	21,752	35,774
Contributions to PEPFF subsequent to the measurement date	<u>45,396</u>	<u>-</u>
Total	<u>\$ 1,428,671</u>	<u>\$ 269,415</u>

Deferred outflows of resources totaling \$45,396 related to pensions resulting from the City's contributions to PEPFF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2017	\$ 210,482
2018	210,482
2019	274,434
2020	224,548
2021	193,914
Thereafter	-

**E. Actuarial assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 for the GERF and RP-2000 for the PEPFF for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the GERF and PEPFF.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015. The experience study for PEPFF was for the period July 1, 2004 through June 30, 2009.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

The following changes in actuarial assumptions occurred in 2016:

GERF

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

PEPFF

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.0
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	<u>2.00</u>	0.50
Total	<u><u>100.00</u></u> %	

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**F. Discount rate**

The discount rate used to measure the total pension liability was 7.50 percent, a reduction from the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERP was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

**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:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERP	\$ 3,298,181	\$ 2,322,178	\$ 1,518,217
	City Proportionate Share of NPL		
	1 Percent Decrease (4.60%)	Current (5.60%)	1 Percent Increase (6.60%)
PEPFF	\$ 2,808,956	\$ 2,006,586	\$ 1,350,991

**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)

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION**

**A. Plan description**

All members of the Cannon Falls Fire Department (the Department) are covered by a defined benefit plan administered by the Cannon Falls Fire Department Relief Association (the Association). As of December 31, 2015, the plan covered 30 active firefighters and 2 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

**B. Benefits provided**

A fire fighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed a minimum of 10 years of service.

The financial requirements of the Special fund are determined in accordance with section 69.772 of the Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service and 10 years of Association membership or upon death.

**C. Contributions**

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$50,059 in fire state aid to the plan on behalf of the Cannon Falls Fire Department for the year ended December 31, 2015 which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2015 were \$50,059. The City made no voluntary contributions to the plan. Furthermore, the firefighter has no obligation to contribute to the plan.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION - CONTINUED**

**D. Pension costs**

At December 31, 2016, the City reported a net pension asset of \$61,731 for the plan. The net pension asset was measured as of December 31, 2015. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by Van Iwaarden Associates applying an actuarial formula to specific census data certified by the Department as of December 31, 2015. The following table presents the changes in net pension liability (asset) during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning balance January 1, 2015	\$ 617,496	\$ 736,940	\$ (119,444)
Changes for the year			
Service cost	28,958	-	28,958
Interest on pension liability (asset)	35,024	-	35,024
Changes of assumptions	(7,109)	-	(7,109)
Change of benefit terms	18,597		18,597
Net investment income	-	(32,964)	32,964
Contributions (State)	-	50,960	(50,960)
Benefit payouts	(74,667)	(74,667)	-
Administrative costs	-	(239)	239
Total net changes	803	(56,910)	57,713
Ending balance December 31, 2015	\$ 618,299	\$ 680,030	\$ (61,731)

For the year ended December 31, 2016, the City recognized pension expense of \$60,163.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION – CONTINUED**

At December 31, 2016, the City reported deferred inflows of resources and deferred outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ -	\$ 6,301
Net difference between projected and actual earnings on plan investments	74,514	-
Contributions to plan subsequent to the measurement date	50,059	-
Total	<u>\$ 124,573</u>	<u>\$ 6,301</u>

Deferred outflows of resources totaling \$50,059 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2017	\$ 19,115
2018	19,115
2019	19,115
2020	13,938
2021	(808)
Thereafter	(2,262)

**E. Actuarial assumptions**

The total pension liability at December 31, 2015 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement eligibility at 50 percent of age 50 or 20 years of service, 50 percent at ages 51-64 and 100 percent at age 65 or 30 years of service.	
Cost of living increases	2.75% per year
Investment rate of return	6.25%
20 year municipal bond yield	3.57%

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan's target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION - CONTINUED**

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	46.45 %	8.33 %
International equity	23.43	8.46
Fixed income	0.71	5.02
Real estate	0.71	7.19
Cash	<u>28.70</u>	3.59
Total	<u><u>100.00 %</u></u>	

**F. Discount rate**

The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension liability sensitivity**

The following presents the City's net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	<u>1 Percent Decrease (5.25%)</u>	<u>Current (6.25%)</u>	<u>1 Percent Increase (7.25%)</u>
Defined benefit plan	\$ (46,626)	\$ (61,731)	\$ (76,479)

**H. Pension plan fiduciary net position**

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Cannon Falls Firefighter's Relief Association, 137 4th Street North, Cannon Falls, Minnesota 55009.



CITY OF CANNON FALLS, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 6: OTHER INFORMATION**

**A. Legal debt margin**

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City has \$31,455 applied against the limit.

**B. Risk management**

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

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

**C. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2016 was \$640,227. This accounted for 20.2 percent of General fund revenues.

**Note 7: COMMITMENTS AND CONTINGENCIES**

**Tax increment districts**

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

**Note 8: TRANSACTIONS BETWEEN THE PRIMARY GOVERNMENT AND ITS COMPONENT UNIT**

The City conducts routine transactions with its component unit for services provided. The City provides administrative and financial services for the EDA activities. Other significant transactions between the primary government and its component unit are described in other notes.

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**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF CANNON FALLS  
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

CITY OF CANNON FALLS, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Schedule of employer's share of PERA net pension liability - General Employees Retirement Fund**

Fiscal Year Ending	City's Proportion of the Net Pension Liability	Required Supplementary Information					Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
		City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	
06/30/16	0.0286 %	\$ 2,322,178	\$ 30,356	\$ 2,352,534	\$ 1,816,533	1.30 %	68.9 %
06/30/15	0.0286	1,482,200	-	1,482,200	1,740,067	0.85	78.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of employer's PERA contributions - General Employees Retirement Fund**

Year Ending	Required Supplementary Information					Contributions as a Percentage of Covered Payroll (b/c)
	Statutorily Required Contribution (a)	Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)		
12/31/16	\$ 136,240	\$ 136,240	\$ -	\$ 1,816,533		7.50 %
12/31/15	130,505	130,505	-	1,740,067		7.50

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

CITY OF CANNON FALLS, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Schedule of employer's share of PERA net pension liability - Public Employees Police and Fire Fund**

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.0500 %	\$ 2,006,587	\$ -	\$ 2,006,587	\$ 535,691	374.6 %	63.9 %
06/30/15	0.0480	545,392	-	545,392	443,963	122.8	86.6

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of employer's PERA contributions - Public Employees Police and Fire Fund**

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/16	\$ 86,782	\$ 86,782	\$ -	\$ 535,691	16.2 %
12/31/15	71,922	71,922	-	443,963	16.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of employer's Fire Relief Association contributions**

Required Supplementary Information			
Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/16	\$ 50,059	\$ 50,059	\$ -
12/31/15	49,960	49,960	-
12/31/14	48,792	48,792	-

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

CITY OF CANNON FALLS, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios**

	2016	2015
<b>Total pension liability</b>		
Service cost	\$ 28,958	\$ 28,183
Interest on pension liability (asset)	35,024	34,669
Changes of benefit terms	18,597	-
Changes of assumptions	(7,109)	-
Benefit payments	(74,667)	(40,242)
<b>Net change in total pension liability</b>	803	22,610
<b>Total pension liability - January 1</b>	617,496	594,886
 <b>Total pension liability - December 31</b>	 <u><u>\$ 618,299</u></u>	 <u><u>\$ 617,496</u></u>
 <b>Plan fiduciary net position</b>		
Employer contributions	\$ 50,960	\$ 48,792
Nonemployer contributions	-	137
Projected investment return	(32,964)	15,287
Benefit payments	(74,667)	(40,242)
Administrative expenses	(239)	(232)
Other	-	3,000
<b>Net change in plan fiduciary net position</b>	(56,910)	26,742
 <b>Plan fiduciary net position - January 1</b>	736,940	710,198
 <b>Plan fiduciary net position - December 31 (b)</b>	 <u><u>\$ 680,030</u></u>	 <u><u>\$ 736,940</u></u>
 <b>Fire Relief's net pension liability (asset) - December 31 (a-b)</b>	 <u><u>\$ (61,731)</u></u>	 <u><u>\$ (119,444)</u></u>
 <b>Plan fiduciary net position as a percentage of the total pension liability (b/a)</b>	 109.98%	 119.34%
 <b>Covered-employee payroll</b>	 N/A	 N/A
 <b>Fire Relief's net pension liability (asset) as a percentage of covered-employee payroll</b>	 N/A	 N/A

**Notes to Schedule:**

*Benefit changes.* In 2015, the benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

*Changes of assumptions.* In 2015, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of general employees. In 2015, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of public safety employees. In 2015, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2000 Healthy Annuitant Mortality Table for purposes of developing mortality rates.

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
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**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF CANNON FALLS  
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

CITY OF CANNON FALLS , MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	Special Revenue	Capital Projects	Total Nonmajor Funds
<b>ASSETS</b>			
Cash and temporary investments	\$ 222,353	\$ 670,920	\$ 893,273
Receivables			
Accrued interest	-	10	10
Accounts	21,789	-	21,789
Special assessments	-	16,937	16,937
Prepaid items	6,821	-	6,821
<b>TOTAL ASSETS</b>	<u><u>\$ 250,963</u></u>	<u><u>\$ 687,867</u></u>	<u><u>\$ 938,830</u></u>
<b>LIABILITIES</b>			
Accounts payable	\$ 7,812	\$ -	\$ 7,812
Unearned revenue	-	32,200	32,200
Accrued salaries payable	8,213	-	8,213
<b>TOTAL LIABILITIES</b>	<u>16,025</u>	<u>32,200</u>	<u>48,225</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - special assessments	<u>-</u>	<u>15,298</u>	<u>15,298</u>
<b>FUND BALANCES</b>			
Nonspendable	6,821	-	6,821
Restricted	126,180	25,046	151,226
Committed	15,883	460,343	476,226
Assigned	86,054	154,980	241,034
<b>TOTAL FUND BALANCES</b>	<u>234,938</u>	<u>640,369</u>	<u>875,307</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 250,963</u></u>	<u><u>\$ 687,867</u></u>	<u><u>\$ 938,830</u></u>



CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue	Capital Projects	Total Nonmajor Funds
REVENUES			
Taxes			
Property	\$ 437,173	\$ -	\$ 437,173
Franchise taxes	30,662	-	30,662
Intergovernmental	163,309	-	163,309
Charges for services	89,112	-	89,112
Fines and forfeitures	6,583	-	6,583
Special assessments	-	115,986	115,986
Interest on investments	82	146	228
Miscellaneous	21,714	4,371	26,085
	<u>748,635</u>	<u>120,503</u>	<u>869,138</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Public safety	235,801	-	235,801
Culture and recreation	424,093	-	424,093
Capital outlay			
Public safety	1,502	41,833	43,335
Public works	-	32,486	32,486
Culture and recreation	28,162	5,510	33,672
	<u>689,558</u>	<u>79,829</u>	<u>769,387</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER EXPENDITURES	<u>59,077</u>	<u>40,674</u>	<u>99,751</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	152,343	152,343
Transfers out	(7,210)	(11,400)	(18,610)
	<u>(7,210)</u>	<u>140,943</u>	<u>133,733</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	51,867	181,617	233,484
FUND BALANCES, JANUARY 1	<u>183,071</u>	<u>458,752</u>	<u>641,823</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 234,938</u></u>	<u><u>\$ 640,369</u></u>	<u><u>\$ 875,307</u></u>

CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	211	220	232	
	Library	Cable Public Television	Fire Department Operations	Total
<b>ASSETS</b>				
Cash and temporary investments	\$ 92,619	\$ 121,915	\$ 7,819	\$ 222,353
Accounts receivable	3,181	6,880	11,728	21,789
Prepaid items	1,184	769	4,868	6,821
<b>TOTAL ASSETS</b>	<u>\$ 96,984</u>	<u>\$ 129,564</u>	<u>\$ 24,415</u>	<u>\$ 250,963</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,965	\$ 2,194	\$ 3,653	\$ 7,812
Accrued salaries payable	7,781	421	11	8,213
<b>TOTAL LIABILITIES</b>	<u>9,746</u>	<u>2,615</u>	<u>3,664</u>	<u>16,025</u>
<b>FUND BALANCES</b>				
Nonspendable	1,184	769	4,868	6,821
Restricted	-	126,180	-	126,180
Committed	-	-	15,883	15,883
Assigned	86,054	-	-	86,054
<b>TOTAL FUND BALANCES</b>	<u>87,238</u>	<u>126,949</u>	<u>20,751</u>	<u>234,938</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 96,984</u>	<u>\$ 129,564</u>	<u>\$ 24,415</u>	<u>\$ 250,963</u>

CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>211</b>	<b>220</b>	<b>232</b>	
	Library	Cable Public Television	Fire Department Operations	Total
REVENUES				
Taxes				
Property	\$ 321,250	\$ -	\$ 115,923	\$ 437,173
Franchise taxes	-	30,662	-	30,662
Intergovernmental				
State	-	-	50,059	50,059
County	113,250	-	-	113,250
Charges for services	1,740	-	87,372	89,112
Fines and forfeitures	6,583	-	-	6,583
Interest on investments	-	2	80	82
Miscellaneous				
Contributions and donations	1,825	-	1,907	3,732
Other	3,000	14,982	-	17,982
TOTAL REVENUES	<u>447,648</u>	<u>45,646</u>	<u>255,341</u>	<u>748,635</u>
EXPENDITURES				
Current				
Public safety	-	-	235,801	235,801
Culture and recreation	400,064	24,029	-	424,093
Capital outlay				
Public safety	-	-	1,502	1,502
Culture and recreation	28,162	-	-	28,162
TOTAL EXPENDITURES	<u>428,226</u>	<u>24,029</u>	<u>237,303</u>	<u>689,558</u>
EXCESS OF REVENUES OVER EXPENDITURES	19,422	21,617	18,038	59,077
OTHER FINANCING USES				
Transfers out	-	(7,210)	-	(7,210)
NET CHANGE IN FUND BALANCES	19,422	14,407	18,038	51,867
FUND BALANCES, JANUARY 1	<u>67,816</u>	<u>112,542</u>	<u>2,713</u>	<u>183,071</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 87,238</u></u>	<u><u>\$ 126,949</u></u>	<u><u>\$ 20,751</u></u>	<u><u>\$ 234,938</u></u>

CITY OF CANNON FALLS, MINNESOTA  
LIBRARY FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 321,250	\$ 321,250	\$ 321,250	\$ -	\$ 307,011
Intergovernmental					
County	112,000	112,000	113,250	1,250	108,640
Charges for services	850	850	1,740	890	1,565
Fines and forfeitures	6,000	6,000	6,583	583	7,387
Miscellaneous					
Contributions and donations	1,000	1,000	1,825	825	11,352
Other	-	-	3,000	3,000	42
TOTAL REVENUES	441,100	441,100	447,648	6,548	435,997
EXPENDITURES					
Current					
Culture and recreation					
Personnel services	337,550	337,550	330,561	6,989	322,914
Supplies	6,200	6,200	5,643	557	6,386
Other services and charges	68,850	68,850	63,860	4,990	59,859
Capital outlay					
Culture and recreation	28,500	28,500	28,162	338	29,673
TOTAL EXPENDITURES	441,100	441,100	428,226	12,874	418,832
NET CHANGE IN FUND BALANCES	-	-	19,422	19,422	17,165
FUND BALANCES, JANUARY 1	67,816	67,816	67,816	-	50,651
FUND BALANCES, DECEMBER 31	\$ 67,816	\$ 67,816	\$ 87,238	\$ 19,422	\$ 67,816

CITY OF CANNON FALLS, MINNESOTA  
CABLE PUBLIC TELEVISION FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Franchise taxes	\$ 33,300	\$ 33,300	\$ 30,662	\$ (2,638)	\$ 39,978
Charges for services	-	-	-	-	260
Interest on investments	-	-	2	2	72
Miscellaneous	-	-	14,982	14,982	-
TOTAL REVENUE	33,300	33,300	45,646	12,346	40,310
EXPENDITURES					
Current					
Culture and recreation					
Personnel services	21,550	21,550	15,760	5,790	9,063
Supplies	2,200	2,200	193	2,007	1,483
Other services and charges	27,350	27,350	8,076	19,274	5,550
TOTAL EXPENDITURES	51,100	51,100	24,029	27,071	16,096
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(17,800)	(17,800)	21,617	39,417	24,214
OTHER FINANCING USES					
Transfers out	-	-	(7,210)	(7,210)	(16,500)
NET CHANGE IN FUND BALANCES	(17,800)	(17,800)	14,407	32,207	7,714
FUND BALANCES, JANUARY 1	112,542	112,542	112,542	-	104,828
FUND BALANCES, DECEMBER 31	\$ 94,742	\$ 94,742	\$ 126,949	\$ 32,207	\$ 112,542

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CITY OF CANNON FALLS, MINNESOTA  
FIRE DEPARTMENT OPERATIONS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 115,923	\$ 115,923	\$ 115,923	\$ -	\$ 106,999
Intergovernmental revenue					
Federal	-	-	-	-	54,340
State	45,000	45,000	50,059	5,059	50,960
Charges for services	87,121	87,121	87,372	251	90,585
Interest on investments	-	-	80	80	1
Miscellaneous					
Contributions and donations	-	-	1,907	1,907	16,000
Other	-	-	-	-	2,046
TOTAL REVENUES	<u>248,044</u>	<u>248,044</u>	<u>255,341</u>	<u>7,297</u>	<u>320,931</u>
EXPENDITURES					
Current					
Public safety					
Personnel services	63,400	63,400	57,954	5,446	57,551
Supplies	26,900	26,900	25,155	1,745	101,594
Other services and charges	146,744	146,744	152,692	(5,948)	171,988
Capital outlay					
Public safety	<u>11,000</u>	<u>11,000</u>	<u>1,502</u>	<u>9,498</u>	<u>4,233</u>
TOTAL EXPENDITURES	<u>248,044</u>	<u>248,044</u>	<u>237,303</u>	<u>10,741</u>	<u>335,366</u>
NET CHANGE IN FUND BALANCES	-	-	18,038	18,038	(14,435)
FUND BALANCES, JANUARY 1	<u>2,713</u>	<u>2,713</u>	<u>2,713</u>	<u>-</u>	<u>17,148</u>
FUND BALANCES, DECEMBER 31	<u>\$ 2,713</u>	<u>\$ 2,713</u>	<u>\$ 20,751</u>	<u>\$ 18,038</u>	<u>\$ 2,713</u>

CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET - CONTINUED ON THE FOLLOWING PAGES  
DECEMBER 31, 2016

	502	504	505	506	507
	Public		Public Works		
	Improvement	Street Capital	Capital	Police Capital	Fire Capital
	Revolving				
ASSETS					
Cash and temporary investments	\$ 131,791	\$ 21,447	\$ 86,124	\$ 12,746	\$ 192,014
Receivables					
Accrued interest	-	-	-	-	10
Special assessments	16,937	-	-	-	-
TOTAL ASSETS	<u>\$ 148,728</u>	<u>\$ 21,447</u>	<u>\$ 86,124</u>	<u>\$ 12,746</u>	<u>\$ 192,024</u>
LIABILITIES					
Unearned revenue	\$ -	\$ -	\$ -	\$ -	\$ -
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - special assessments	15,298	-	-	-	-
FUND BALANCES					
Restricted	-	-	-	-	-
Committed	-	21,447	86,124	12,746	192,024
Assigned	133,430	-	-	-	-
TOTAL FUND BALANCES	<u>133,430</u>	<u>21,447</u>	<u>86,124</u>	<u>12,746</u>	<u>192,024</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 148,728</u>	<u>\$ 21,447</u>	<u>\$ 86,124</u>	<u>\$ 12,746</u>	<u>\$ 192,024</u>



<b>509</b>	<b>510</b>	<b>511</b>	<b>527</b>	<b>225</b>
Administration Capital	Park Capital	Library Capital	2013 Eastside Improvement Project	Park Board
\$ 52,207	\$ 49,407	\$ 46,388	\$ 21,550	\$ 25,046
-	-	-	-	-
-	-	-	-	-
<u>\$ 52,207</u>	<u>\$ 49,407</u>	<u>\$ 46,388</u>	<u>\$ 21,550</u>	<u>\$ 25,046</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	25,046
52,207	49,407	46,388	-	-
-	-	-	21,550	-
<u>52,207</u>	<u>49,407</u>	<u>46,388</u>	<u>21,550</u>	<u>25,046</u>
<u>\$ 52,207</u>	<u>\$ 49,407</u>	<u>\$ 46,388</u>	<u>\$ 21,550</u>	<u>\$ 25,046</u>

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CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET - CONTINUED  
DECEMBER 31, 2016

	<b>401</b> HWY 20 Clinic Access Road	<b>405</b> 3rd Street Bridge	Total
ASSETS			
Cash and temporary investments	\$ -	\$ 32,200	\$ 670,920
Receivables			
Accrued interest	-	-	10
Special assessments	-	-	16,937
	<u>-</u>	<u>-</u>	<u>16,937</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 32,200</u>	<u>\$ 687,867</u>
LIABILITIES			
Unearned revenue	<u>\$ -</u>	<u>\$ 32,200</u>	<u>\$ 32,200</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - special assessments	<u>-</u>	<u>-</u>	<u>15,298</u>
FUND BALANCES			
Restricted	-	-	25,046
Committed	-	-	460,343
Assigned	<u>-</u>	<u>-</u>	<u>154,980</u>
TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>640,369</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 32,200</u>	<u>\$ 687,867</u>

CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - CONTINUED ON THE FOLLOWING PAGES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	502 Public Improvement Revolving	504 Street Capital	505 Public Works Capital	506 Police Capital
REVENUES				
Special assessments	\$ 5,967	\$ -	\$ -	\$ -
Interest on investments	132	-	-	-
Miscellaneous	-	-	-	-
TOTAL REVENUES	6,099	-	-	-
EXPENDITURES				
Capital outlay				
Public safety	-	-	-	41,833
Public works	4,757	-	27,729	-
Culture and recreation	-	-	-	-
TOTAL EXPENDITURES	4,757	-	27,729	41,833
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,342	-	(27,729)	(41,833)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	5,300	53,800	26,550
Transfers out	(11,400)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(11,400)	5,300	53,800	26,550
NET CHANGE IN FUND BALANCES	(10,058)	5,300	26,071	(15,283)
FUND BALANCES, JANUARY 1	143,488	16,147	60,053	28,029
FUND BALANCES, DECEMBER 31	\$ 133,430	\$ 21,447	\$ 86,124	\$ 12,746

<b>507</b>	<b>509</b>	<b>510</b>	<b>511</b>	<b>527</b>	<b>225</b>
Fire Capital	Administration Capital	Park Capital	Library Capital	2013 Eastside Improvement Project	Park Board
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	-	-	-	4	-
4,371	-	-	-	-	-
4,381	-	-	-	4	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	5,510
-	-	-	-	-	5,510
4,381	-	-	-	4	(5,510)
18,300	12,675	6,300	2,250	-	-
-	-	-	-	-	-
18,300	12,675	6,300	2,250	-	-
22,681	12,675	6,300	2,250	4	(5,510)
169,343	39,532	43,107	44,138	21,546	30,556
<u>\$ 192,024</u>	<u>\$ 52,207</u>	<u>\$ 49,407</u>	<u>\$ 46,388</u>	<u>\$ 21,550</u>	<u>\$ 25,046</u>

CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>401</b> HWY 20 Clinic Access Road	<b>405</b> 3rd Street Bridge	Total
REVENUES			
Special assessments	\$ 110,019	\$ -	\$ 115,986
Interest on investments	-	-	146
Miscellaneous	-	-	4,371
	<u>110,019</u>	<u>-</u>	<u>120,503</u>
TOTAL REVENUES			
EXPENDITURES			
Capital outlay			
Public safety	-	-	41,833
Public works	-	-	32,486
Culture and recreation	-	-	5,510
	<u>-</u>	<u>-</u>	<u>79,829</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>110,019</u>	<u>-</u>	<u>40,674</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	27,168	-	152,343
Transfers out	-	-	(11,400)
	<u>27,168</u>	<u>-</u>	<u>140,943</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	137,187	-	181,617
FUND BALANCES, JANUARY 1	<u>(137,187)</u>	<u>-</u>	<u>458,752</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 640,369</u></u>

CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Storm Water	Deputy Registrar	Recycling Program	Totals
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 314,115	\$ (13,050)	\$ 90,241	\$ 391,306
Receivables				
Accrued interest	117	-	-	117
Accounts	15,063	793	8,681	24,537
Special assessments	4,856	-	3,411	8,267
Prepaid items	-	127	-	127
<b>TOTAL CURRENT ASSETS</b>	<b>334,151</b>	<b>(12,130)</b>	<b>102,333</b>	<b>424,354</b>
NONCURRENT ASSETS				
Capital assets				
Construction in progress	191,608	-	-	191,608
Depreciable buildings, property, and equipment	1,044,998	-	-	1,044,998
Accumulated depreciation	(134,174)	-	-	(134,174)
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,102,432</b>	<b>-</b>	<b>-</b>	<b>1,102,432</b>
<b>TOTAL ASSETS</b>	<b>1,436,583</b>	<b>(12,130)</b>	<b>102,333</b>	<b>1,526,786</b>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension resources	671	23,957	-	24,628
LIABILITIES				
CURRENT LIABILITIES				
Accrued interest payable	8,968	-	-	8,968
Accrued salaries payable	-	3,443	-	3,443
Compensated absences payable	-	1,713	-	1,713
Capital lease payable	7,364	-	-	7,364
Bonds payable	19,481	-	-	19,481
<b>TOTAL CURRENT LIABILITIES</b>	<b>35,813</b>	<b>5,156</b>	<b>-</b>	<b>40,969</b>
NONCURRENT LIABILITIES				
Compensated absences payable	-	5,139	-	5,139
Capital lease payable	24,092	-	-	24,092
Bonds payable	579,329	-	-	579,329
Pension liability	1,864	66,524	-	68,388
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>605,285</b>	<b>71,663</b>	<b>-</b>	<b>676,948</b>
<b>TOTAL LIABILITIES</b>	<b>641,098</b>	<b>76,819</b>	<b>-</b>	<b>717,917</b>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension resources	208	7,419	-	7,627
NET POSITION				
Net investment in capital assets	472,166	-	-	472,166
Unrestricted	323,782	(72,411)	102,333	353,704
<b>TOTAL NET POSITION</b>	<b>\$ 795,948</b>	<b>\$ (72,411)</b>	<b>\$ 102,333</b>	<b>\$ 825,870</b>

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CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Storm Water	Deputy Registrar	Recycling Program	Totals
OPERATING REVENUES				
Charges for services	\$ 144,426	\$ 118,275	\$ 84,888	\$ 347,589
OPERATING EXPENSES				
Personnel services	3,224	112,216	605	116,045
Supplies	770	1,262	-	2,032
Repairs and maintenance	-	408	-	408
Depreciation	33,117	-	-	33,117
Rent	-	16,950	-	16,950
Other services and charges	2,611	4,438	72,050	79,099
TOTAL OPERATING EXPENSES	39,722	135,274	72,655	247,651
OPERATING INCOME (LOSS)	104,704	(16,999)	12,233	99,938
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	610	-	79	689
Other income	-	-	2,891	2,891
Bond issuance costs	(1,116)	-	-	(1,116)
Interest expense	(16,596)	-	-	(16,596)
TOTAL NONOPERATING REVENUES (EXPENSES)	(17,102)	-	2,970	(14,132)
INCOME (LOSS) BEFORE TRANSFERS	87,602	(16,999)	15,203	85,806
TRANSFERS OUT	-	(2,750)	-	(2,750)
CHANGE IN NET POSITION	87,602	(19,749)	15,203	83,056
NET POSITION, JANUARY 1	708,346	(52,662)	87,130	742,814
NET POSITION, DECEMBER 31	\$ 795,948	\$ (72,411)	\$ 102,333	\$ 825,870

CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Storm Water	Deputy Registrar	Recycling Program	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 145,788	\$ 117,504	\$ 87,967	\$ 351,259
Payments to suppliers	(4,124)	(42,136)	(77,497)	(123,757)
Payments to employees	(2,163)	(86,543)	(605)	(89,311)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>139,501</u>	<u>(11,175)</u>	<u>9,865</u>	<u>138,191</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Transfers out	-	(2,750)	-	(2,750)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	(191,608)	-	-	(191,608)
Proceeds from bonds issued	193,157	-	-	193,157
Bond issuance costs paid	(1,116)	-	-	(1,116)
Principal paid on capital lease	(7,055)	-	-	(7,055)
Principal paid on long-term debt	(19,482)	-	-	(19,482)
Interest paid on long-term debt	(14,528)	-	-	(14,528)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(40,632)</u>	<u>-</u>	<u>-</u>	<u>(40,632)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received from investments	<u>569</u>	<u>-</u>	<u>79</u>	<u>648</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>99,438</u>	<u>(13,925)</u>	<u>9,944</u>	<u>95,457</u>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>214,677</u>	<u>875</u>	<u>80,297</u>	<u>295,849</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u><u>\$ 314,115</u></u>	<u><u>\$ (13,050)</u></u>	<u><u>\$ 90,241</u></u>	<u><u>\$ 391,306</u></u>

CITY OF CANNON FALLS, MINNESOTA  
NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF CASH FLOWS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Storm Water	Deputy Registrar	Recycling Program	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 104,704	\$ (16,999)	\$ 12,233	\$ 99,938
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	-	-	2,891	2,891
Depreciation	33,117	-	-	33,117
(Increase) decrease in assets/deferred outflows of resources				
Accounts receivable	(1,124)	(771)	(178)	(2,073)
Special assessments receivable	2,486	-	366	2,852
Prepaid items	-	5	-	5
Deferred pension resources	(574)	(19,077)	-	(19,651)
Increase (decrease) in liabilities/deferred inflows of resources				
Accounts and contracts payable	(169)	(6)	(5,447)	(5,622)
Accrued salaries payable	-	778	-	778
Compensated absences payable	-	1,788	-	1,788
Deferred pension resources	32	(1,425)	-	(1,393)
Pension liability	1,029	24,532	-	25,561
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 139,501</u>	<u>\$ (11,175)</u>	<u>\$ 9,865</u>	<u>\$ 138,191</u>

CITY OF CANNON FALLS, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016			2015
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final		
REVENUES				
Property taxes	\$ 1,916,117	\$ 1,916,117	\$ 1,969,263	\$ 1,863,901
Licenses and permits				
Business	20,700	20,700	24,100	19,650
Nonbusiness	30,900	30,900	33,522	30,908
Total	51,600	51,600	57,622	50,558
Intergovernmental				
State				
Local government aid	640,227	640,227	640,227	637,001
Market value agricultural credits	-	-	458	469
Police and police training	44,000	44,000	57,001	54,506
PERA aid	4,456	4,456	4,456	4,456
Small cities assistance program	-	-	-	51,210
Other	-	-	1,857	-
County				
Police grant	-	-	3,677	4,407
Total	688,683	688,683	707,676	752,049
Charges for services				
General government	7,750	7,750	6,322	5,885
Public safety	1,550	1,550	9,634	11,114
Public works	11,100	11,100	3,425	10,851
Culture and recreation	35,900	35,900	39,214	36,826
Total	56,300	56,300	58,595	64,676
Fines and forfeitures	24,000	24,000	28,889	27,967
Special assessments	17,200	17,200	22,282	23,712
Interest on investments	4,100	4,100	27,723	7,269
Miscellaneous				
Rents	70,300	70,300	72,715	65,027
Contributions and donations	-	-	3,860	8,865
Reimbursements	167,100	167,100	166,474	158,402
Other	18,455	18,455	49,938	49,717
Total	255,855	255,855	292,987	282,011
TOTAL REVENUES	3,013,855	3,013,855	3,165,037	3,072,143

CITY OF CANNON FALLS, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Mayor and City Council					
Personnel services	\$ 19,925	\$ 19,925	\$ 18,977	\$ 948	\$ 18,400
Supplies	1,300	1,300	96	1,204	81
Other services and charges	8,400	8,400	4,907	3,493	5,675
Total	29,625	29,625	23,980	5,645	24,156
Elections					
Personnel services	18,350	18,350	19,342	(992)	17
Supplies	100	100	168	(68)	-
Other services and charges	2,350	2,350	2,641	(291)	813
Total	20,800	20,800	22,151	(1,351)	830
Administrative					
Personnel services	448,275	448,275	411,438	36,837	402,134
Supplies	2,200	2,200	2,201	(1)	1,949
Other services and charges	60,250	60,250	39,779	20,471	46,835
Total	510,725	510,725	453,418	57,307	450,918
Audit and consulting fees					
Other services and charges	21,100	21,100	25,255	(4,155)	19,015
Planning and zoning					
Other services and charges	1,650	1,650	870	780	2,481
Legal					
Other services and charges	66,000	66,000	58,628	7,372	46,712
Information and technology					
Personnel services	110	110	108	2	43,618
Supplies	100	100	180	(80)	16
Other services and charges	38,100	38,100	38,452	(352)	30,624
Total	38,310	38,310	38,740	(430)	74,258
General government building					
Personnel services	36,650	36,650	36,825	(175)	36,152
Supplies	4,450	4,450	6,743	(2,293)	6,239
Other services and charges	34,280	34,280	41,720	(7,440)	45,749
Total	75,380	75,380	85,288	(9,908)	88,140
Total general government	763,590	763,590	708,330	55,260	706,510

CITY OF CANNON FALLS, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

EXPENDITURES - CONTINUED	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Current - continued					
Public safety					
Police protection					
Personnel services	\$ 835,150	\$ 835,150	\$ 844,018	\$ (8,868)	\$ 711,555
Supplies	50,900	50,900	50,645	255	45,959
Other services and charges	86,500	86,500	95,534	(9,034)	113,757
Total	972,550	972,550	990,197	(17,647)	871,271
Building inspection					
Personnel services	4,775	4,775	3,608	1,167	3,572
Other services and charges	28,000	28,000	27,201	799	24,338
Total	32,775	32,775	30,809	1,966	27,910
Animal control					
Other services and charges	1,000	1,000	1,000	-	1,000
Total public safety	1,006,325	1,006,325	1,022,006	(15,681)	900,181
Public works					
Public works administration					
Personnel services	204,900	204,900	217,798	(12,898)	218,932
Supplies	40,550	40,550	18,276	22,274	22,863
Other services and charges	21,800	21,800	30,371	(8,571)	18,827
Total	267,250	267,250	266,445	805	260,622
Streets and highways					
Personnel services	60,625	60,625	56,443	4,182	57,050
Supplies	31,000	31,000	20,295	10,705	35,172
Other services and charges	10,500	10,500	84,890	(74,390)	15,461
Total	102,125	102,125	161,628	(59,503)	107,683
Snow and ice removal					
Personnel services	51,075	51,075	24,755	26,320	26,370
Supplies	19,500	19,500	20,809	(1,309)	16,843
Other services and charges	5,500	5,500	2,735	2,765	3,566
Total	76,075	76,075	48,299	27,776	46,779

CITY OF CANNON FALLS, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Public works - continued					
Road equipment and garage					
Personnel services	\$ 28,250	\$ 28,250	\$ 24,595	\$ 3,655	\$ 28,306
Supplies	11,000	11,000	9,291	1,709	8,639
Other services and charges	21,100	21,100	14,448	6,652	8,298
Total	60,350	60,350	48,334	12,016	45,243
Garage building					
Personnel services	13,875	13,875	11,163	2,712	10,878
Supplies	4,100	4,100	2,233	1,867	2,156
Other services and charges	11,650	11,650	12,462	(812)	10,807
Total	29,625	29,625	25,858	3,767	23,841
Street lighting					
Supplies	500	500	890	(390)	6,167
Other services and charges	65,000	65,000	58,990	6,010	60,500
Total	65,500	65,500	59,880	5,620	66,667
Engineering					
Other services and charges	45,000	45,000	21,518	23,482	68,468
Total public works	645,925	645,925	631,962	13,963	619,303
Culture and recreation					
Tree maintenance					
Personnel services	21,050	21,050	25,156	(4,106)	17,285
Supplies	150	150	3,604	(3,454)	1,129
Other services and charges	11,800	11,800	11,329	471	14,012
Total	33,000	33,000	40,089	(7,089)	32,426
Parks					
Personnel services	44,400	44,400	45,590	(1,190)	38,967
Supplies	13,100	13,100	10,950	2,150	10,405
Other services and charges	21,750	21,750	23,862	(2,112)	27,600
Total	79,250	79,250	80,402	(1,152)	76,972

CITY OF CANNON FALLS, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget	Amounts
EXPENDITURES - CONTINUED					
Current - continued					
Culture and recreation - continued					
Swimming pool					
Personnel services	\$ 69,025	\$ 69,025	\$ 68,674	\$ 351	\$ 58,334
Supplies	8,800	8,800	5,098	3,702	7,655
Other services and charges	16,600	16,600	16,539	61	21,657
Total	94,425	94,425	90,311	4,114	87,646
Athletic fields					
Personnel services	14,625	14,625	16,352	(1,727)	15,213
Supplies	5,100	5,100	9,057	(3,957)	3,103
Other services and charges	16,325	16,325	11,480	4,845	21,720
Total	36,050	36,050	36,889	(839)	40,036
Skating					
Personnel services	5,075	5,075	6,025	(950)	6,717
Supplies	100	100	1,227	(1,127)	549
Other services and charges	1,675	1,675	1,809	(134)	12,182
Total	6,850	6,850	9,061	(2,211)	19,448
Cannon Valley Trail					
Personnel services	165,200	165,200	164,380	820	159,632
Supplies	-	-	22	(22)	24
Other services and charges	14,465	14,465	13,855	610	13,697
Total	179,665	179,665	178,257	1,408	173,353
Total culture and recreation	429,240	429,240	435,009	(5,769)	429,881
Miscellaneous					
Unallocated					
Personnel services	1,200	1,200	333	867	309
Other services and charges	77,600	77,600	94,914	(17,314)	86,391
Total miscellaneous	78,800	78,800	95,247	(16,447)	86,700
Total current expenditures	2,923,880	2,923,880	2,892,554	31,326	2,742,575



CITY OF CANNON FALLS, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget	Amounts
EXPENDITURES - CONTINUED					
Capital outlay					
General government	\$ 2,650	\$ 2,650	\$ 1,402	\$ 1,248	\$ 3,739
Public safety	6,500	6,500	3,819	2,681	3,041
Public works	5,750	5,750	1,750	4,000	11,846
Total capital outlay	14,900	14,900	6,971	7,929	18,626
Debt service					
Capital lease					
Principal	7,675	7,675	7,055	620	16,071
Interest	1,700	1,700	2,292	(592)	2,889
Total debt service	9,375	9,375	9,347	28	18,960
TOTAL EXPENDITURES	2,948,155	2,948,155	2,908,872	39,283	2,780,161
EXCESS OF REVENUES OVER EXPENDITURES	65,700	65,700	256,165	190,465	291,982
OTHER FINANCING SOURCES (USES)					
Transfers in	16,450	16,450	23,660	7,210	41,253
Sale of capital assets	-	-	-	-	9,364
Transfers out	(111,475)	(111,475)	(371,475)	(260,000)	(108,200)
TOTAL OTHER FINANCING SOURCES (USES)	(95,025)	(95,025)	(347,815)	(252,790)	(57,583)
NET CHANGE IN FUND BALANCES	(29,325)	(29,325)	(91,650)	(62,325)	234,399
FUND BALANCES, JANUARY 1	2,167,014	2,167,014	2,167,014	-	1,932,615
FUND BALANCES, DECEMBER 31	<u>\$ 2,137,689</u>	<u>\$ 2,137,689</u>	<u>\$ 2,075,364</u>	<u>\$ (62,325)</u>	<u>\$ 2,167,014</u>

CITY OF CANNON FALLS, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	<b>524</b> 2011A G.O. Bonds	<b>526</b> 2012A G.O. Improvement Bond	<b>528</b> 2012B G.O. Refunding Bond
<b>ASSETS</b>			
Cash and temporary investments	\$ 397,597	\$ 229,854	\$ 105,192
Special assessment receivable	<u>414,415</u>	<u>-</u>	<u>457,793</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 812,012</u></u>	<u><u>\$ 229,854</u></u>	<u><u>\$ 562,985</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - special assessments	\$ 395,594	\$ -	\$ 398,447
<b>FUND BALANCES</b>			
Restricted for debt service	<u>416,418</u>	<u>229,854</u>	<u>164,538</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 812,012</u></u>	<u><u>\$ 229,854</u></u>	<u><u>\$ 562,985</u></u>

<b>529</b> 2013A G.O. Improvement Bond	<b>530</b> 2016A G.O. Bond	Total
\$ 357,292	\$ 137,037	\$ 1,226,972
<u>317,046</u>	<u>362,361</u>	<u>1,551,615</u>
<u><u>\$ 674,338</u></u>	<u><u>\$ 499,398</u></u>	<u><u>\$ 2,778,587</u></u>
\$ 299,442	\$ 344,207	\$ 1,437,690
<u>374,896</u>	<u>155,191</u>	<u>1,340,897</u>
<u><u>\$ 674,338</u></u>	<u><u>\$ 499,398</u></u>	<u><u>\$ 2,778,587</u></u>

CITY OF CANNON FALLS, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>524</b> 2011A G.O. Bonds	<b>526</b> 2012A G.O. Improvement Bond	<b>528</b> 2012B G.O. Refunding Bond
REVENUES			
Taxes	\$ 89,000	\$ 4,750	\$ 208,000
Special assessments	55,333	-	151,465
Interest on investments	-	-	-
	<u>144,333</u>	<u>4,750</u>	<u>359,465</u>
TOTAL REVENUES			
EXPENDITURES			
Debt service			
Principal	90,000	64,000	490,000
Interest and other charges	30,008	9,618	25,510
	<u>120,008</u>	<u>73,618</u>	<u>515,510</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>24,325</u>	<u>(68,868)</u>	<u>(156,045)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	260,000	136,400
Bond issued	-	-	-
Transfers out	-	-	-
	<u>-</u>	<u>260,000</u>	<u>136,400</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	24,325	191,132	(19,645)
FUND BALANCES, JANUARY 1	<u>392,093</u>	<u>38,722</u>	<u>184,183</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 416,418</u></u>	<u><u>\$ 229,854</u></u>	<u><u>\$ 164,538</u></u>

<b>529</b> 2013A G.O. Improvement Bond	<b>530</b> 2016A G.O. Bond	Total
\$ 90,301	\$ -	\$ 392,051
40,086	138,893	385,777
-	1,081	1,081
<u>130,387</u>	<u>139,974</u>	<u>778,909</u>
85,000	-	729,000
<u>39,645</u>	<u>-</u>	<u>104,781</u>
<u>124,645</u>	<u>-</u>	<u>833,781</u>
<u>5,742</u>	<u>139,974</u>	<u>(54,872)</u>
-	-	396,400
-	15,217	15,217
<u>(27,168)</u>	<u>-</u>	<u>(27,168)</u>
<u>(27,168)</u>	<u>15,217</u>	<u>384,449</u>
(21,426)	155,191	329,577
<u>396,322</u>	<u>-</u>	<u>1,011,320</u>
<u>\$ 374,896</u>	<u>\$ 155,191</u>	<u>\$ 1,340,897</u>

CITY OF CANNON FALLS, MINNESOTA  
ECONOMIC DEVELOPMENT AUTHORITY  
(DISCRETELY PRESENTED COMPONENT UNIT)  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	Economic Development	Industrial Revolving Loan	Total
<b>ASSETS</b>			
Cash and temporary investments	\$ 64,230	\$ 76,320	\$ 140,550
Receivables			
Accounts	-	20,709	20,709
Accrued interest	-	22	22
Loans	-	308,186	308,186
Contract for deed	-	188,795	188,795
Prepaid items	152	-	152
<b>TOTAL ASSETS</b>	<u>\$ 64,382</u>	<u>\$ 594,032</u>	<u>\$ 658,414</u>
<b>LIABILITIES</b>			
Accounts and contracts payable	\$ 1,536	\$ -	\$ 1,536
Accrued salaries payable	3,287	-	3,287
<b>TOTAL LIABILITIES</b>	<u>4,823</u>	<u>-</u>	<u>4,823</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - contract for deed receivable	-	188,795	188,795
<b>FUND BALANCES</b>			
Nonspendable			
Prepaid items	152	-	152
Committed			
Economic development	59,407	-	59,407
Revolving loan program	-	405,237	405,237
<b>TOTAL FUND BALANCES</b>	<u>59,559</u>	<u>405,237</u>	<u>464,796</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 64,382</u>	<u>\$ 594,032</u>	<u>\$ 658,414</u>

Amounts reported for the Economic Development Authority in the statement of net position are different because

Total fund balances reported above	\$ 464,796
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	734,124
Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Noncurrent liabilities at year-end consist of	
Compensated absences payable	(21,620)
Pension liability	(69,149)
Some receivables are not available soon enough to pay for current-period expenditures and, therefore, are unavailable revenue in the funds	
Contract for deed receivable	188,795
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	24,902
Deferred inflows of pension resources	(7,712)
Total net position - Economic Development Authority	<u>\$ 1,314,136</u>

CITY OF CANNON FALLS, MINNESOTA  
ECONOMIC DEVELOPMENT AUTHORITY  
(DISCRETELY PRESENTED COMPONENT UNIT)  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Economic Development	Industrial Revolving Loan	Total
REVENUES			
Property taxes	\$ 137,625	\$ -	\$ 137,625
Interest on investments	-	227	227
Miscellaneous	-	26,656	26,656
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	137,625	26,883	164,508
EXPENDITURES			
Current			
Economic development	148,096	3,859	151,955
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	(10,471)	23,024	12,553
FUND BALANCES, JANUARY 1	70,030	382,213	452,243
	<hr/>	<hr/>	<hr/>
FUND BALANCES, DECEMBER 31	<u>\$ 59,559</u>	<u>\$ 405,237</u>	<u>\$ 464,796</u>

Amounts reported for the Economic Development Authority in the statement of activities are different because

Net changes in fund balances - Economic Development Authority	\$ 12,553
Governmental funds report loan disbursements as expenditures and the related loan repayments as revenues. However, in the statement of activities these transactions has no effect on net position. The amounts of the differences are	
Principal payments received for contract for deed	(12,643)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Compensated absences	(5,788)
Long-term pension activity is not reported in governmental funds. Pension expense	193
Pension revenue	<hr/> -
Change in net position - Economic Development Authority	<u><u>\$ (5,685)</u></u>

CITY OF CANNON FALLS, MINNESOTA  
ECONOMIC DEVELOPMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 137,625	\$ 137,625	\$ 137,625	\$ -	\$ 128,275
Miscellaneous					
Contributions and donations	-	-	-	-	1,538
Refunds and reimbursements	-	-	-	-	10,404
TOTAL REVENUES	137,625	137,625	137,625	-	140,217
EXPENDITURES					
Current					
Economic development					
Personnel services	127,575	127,575	130,807	(3,232)	123,399
Supplies	250	250	22	228	62
Other services and charges	9,800	9,800	17,267	(7,467)	27,812
TOTAL EXPENDITURES	137,625	137,625	148,096	(10,471)	151,273
NET CHANGE IN FUND BALANCES	-	-	(10,471)	(10,471)	(11,056)
FUND BALANCES, JANUARY 1	70,030	70,030	70,030	-	81,086
FUND BALANCES, DECEMBER 31	<u>\$ 70,030</u>	<u>\$ 70,030</u>	<u>\$ 59,559</u>	<u>\$ (10,471)</u>	<u>\$ 70,030</u>



CITY OF CANNON FALLS, MINNESOTA  
INDUSTRIAL REVOLVING LOAN FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With comparative actual amounts for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Interest on investments	\$ 450	\$ 450	\$ 227	\$ (223)	\$ 404
Miscellaneous	11,900	11,900	26,656	14,756	26,301
TOTAL REVENUES	12,350	12,350	26,883	14,533	26,705
EXPENDITURES					
Current					
Economic development					
Other services and charges	5,500	5,500	3,859	1,641	11,258
NET CHANGE IN FUND BALANCES	6,850	6,850	23,024	16,174	15,447
FUND BALANCES, JANUARY 1	382,213	382,213	382,213	-	366,766
FUND BALANCES, DECEMBER 31	<u>\$ 389,063</u>	<u>\$ 389,063</u>	<u>\$ 405,237</u>	<u>\$ 16,174</u>	<u>\$ 382,213</u>

CITY OF CANNON FALLS, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Total		Percent Increase (Decrease)
	2016	2015	
REVENUES			
Taxes	\$ 2,829,149	\$ 2,701,689	4.72 %
Special assessments	524,045	247,880	111.41
Licenses and permits	57,622	50,558	13.97
Intergovernmental	870,985	965,989	(9.83)
Charges for services	147,707	157,086	(5.97)
Fines and forfeits	35,472	35,354	0.33
Investment earnings	30,536	9,939	207.23
Miscellaneous	319,072	334,201	(4.53)
TOTAL REVENUES	<u>\$ 4,814,588</u>	<u>\$ 4,502,696</u>	6.93 %
Per Capita	<u>\$ 1,170</u>	<u>\$ 1,096</u>	6.74 %
EXPENDITURES			
Current			
General government	\$ 708,330	\$ 706,510	0.26 %
Public safety	1,257,807	1,231,314	2.15
Public works	631,962	619,303	2.04
Culture and recreation	859,102	835,136	2.87
Miscellaneous	95,247	86,700	9.86
Capital outlay			
General government	1,402	3,739	(62.50)
Public safety	47,154	9,763	382.99
Public works	1,223,124	49,400	2,375.96
Culture and recreation	33,672	66,232	(49.16)
Debt service			
Principal	736,055	626,071	17.57
Interest and other charges	107,073	149,692	(28.47)
TOTAL EXPENDITURES	<u>\$ 5,700,928</u>	<u>\$ 4,383,860</u>	30.04 %
Per Capita	<u>\$ 1,385</u>	<u>\$ 1,067</u>	29.82 %
Total Long-term Indebtedness	\$ 6,116,455	\$ 5,622,510	8.79 %
Per Capita	1,486	1,369	8.60
General Fund Balance - December 31	\$ 2,075,364	\$ 2,167,014	(4.23) %
Per Capita	504	528	(4.39)

The purpose of this report is to provide a summary of financial information concerning the City of Cannon Falls, Minnesota to interested citizens. The complete financial statements may be examined at City Hall, 918 River Road, Cannon Falls, Minnesota 55009. Questions about this report should be directed to Lanell Endres, Assistant City Administrator at (507) 263-9300.

**OTHER REQUIRED REPORTS**

CITY OF CANNON FALLS  
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Cannon Falls, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cannon Falls, Minnesota as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 18, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories except tax increment financing as the City does not have any tax increment financing districts.

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

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

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
April 18, 2017

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

Honorable Mayor and City Council  
City of Cannon Falls, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cannon Falls, Minnesota (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 18, 2017.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2016-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

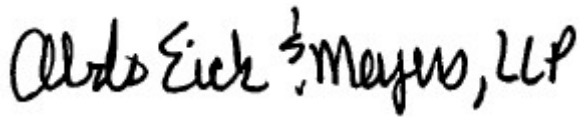
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

### **The City's Response to the Finding**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Abdo Eick & Meyers, LLP". The signature is written in a cursive, flowing style.

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
April 18, 2017

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CITY OF CANNON FALLS, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Finding</u>	<u>Description</u>
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<b>2016-001</b>	<b>Preparation of financial statements</b>
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<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
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<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
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<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
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<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
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<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements, we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
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*Management response:*

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