

CITY OF ALEXANDRIA
MUNICIPAL LIQUOR DISPENSARY
DBA: DOWNTOWN LIQUOR STORE
AND PLAZA LIQUOR STORE
ALEXANDRIA, MINNESOTA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

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CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
DBA: DOWNTOWN LIQUOR STORE
AND PLAZA LIQUOR STORE
ALEXANDRIA, MINNESOTA
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FINANCIAL SECTION

CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
DBA: DOWNTOWN LIQUOR AND
PLAZA LIQUOR STORE
ALEXANDRIA, MINNESOTA

FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council Members
City of Alexandria Municipal Liquor Dispensary
Alexandria, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Alexandria Municipal Liquor Dispensary (the Dispensary), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the entity's 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 the financial statements that are free from material misstatement, whether due to fraud or error.

The prior year comparative information has been derived from the Dispensary's 2013 financial statements. We did not audit the 2013 financial statements of the Dispensary. Those financial statements were audited by other auditors, whose report dated March 4, 2014, expressed an unmodified opinion on those statements.

Auditor's Responsibility

Our responsibility is to express an opinion 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 audits 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 Dispensary'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 Dispensary'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 financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Dispensary as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Prior Period Financial Statements

The financial statements of the Dispensary as of December, 31 2013, were audited by other auditors whose report dated March 4, 2014, expressed an unmodified opinion on those statements.

Other Matters

Emphasis of Matter

As discussed in Note 1A, the financial statements present only the Dispensary and do not purport to, and do not present fairly the financial position of the City of Alexandria, as of December 31, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the United States of America require that the Management's Discussion on page 9 and Analysis and Schedule of Funding Progress for other postemployment benefit plan on page 40 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2015 on our consideration of the Dispensary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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* and should be considered in assessing the results of our audit.

Abdo, Eick & Meyers, LLP

ABDO.EICK & MEYERS, LLP
Mankato, Minnesota
March 17, 2015

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Management's Discussion and Analysis

As management of the Municipal Liquor Dispensary (the Dispensary), we offer readers of the Dispensary's financial statements this narrative overview and analysis of the financial activities of the Dispensary for the fiscal year ended December 31, 2014.

Financial Highlights

- The assets of the Dispensary exceeded its liabilities at the close of the most recent fiscal year by \$862,350 (net position). Of this amount, \$312,337 (unrestricted net position) may be used to meet the Dispensary's ongoing obligations to citizens and creditors.
- The Dispensary's total net position increased \$93,405, compared to an increase of \$80,088 in the previous year. The Downtown Liquor's net position increased by \$32,207 and Plaza Liquor's net position increased by \$61,198. The increases are due to changes in inventory selection for consumers, marketing, service standards and pricing philosophies and strategies.
- The Dispensary's gross profit percentage was 23.6 percent in 2014, up 1.0 percent from 22.6 percent in 2013. The Dispensary's gross profit percentage was 22.1 and 21.6 percent in 2012 and 2011, respectively. This increase is due to pricing philosophies and strategies.
- At the end of the current fiscal year, unrestricted net position was \$312,337, or 38.7 percent of total operating expenses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Dispensary's basic financial statements. The Dispensary's basic financial statements comprise two components: 1) fund financial statements and 2) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

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 Dispensary, 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 Dispensary are categorized as proprietary funds.

Proprietary funds. The Dispensary maintains one type of proprietary fund. The Dispensary uses enterprise funds to account for its liquor store functions. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the Dispensary.

The basic proprietary fund financial statements can be found starting on page 16 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 fund financial statements. The notes to the financial statements can be found starting on page 23 of this report.

Fund 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 Dispensary, assets exceeded liabilities by \$862,350 at the close of the most recent fiscal year.

A large portion of the Dispensary's net position (63.8 percent) reflects 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 Dispensary uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Dispensary'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.

Municipal Liquor Dispensary's Summary of Net Position

	Business-type Activities			Percentage Increase (Decrease)
	2014	2013	Increase (Decrease)	
Current and other assets	\$ 914,124	\$ 938,042	\$ (23,918)	(2.5) %
Capital assets	550,013	581,539	(31,526)	(5.4)
Total assets	1,464,137	1,519,581	(55,444)	(3.6)
Long-term liabilities outstanding	341,959	400,841	(58,882)	(14.7)
Other liabilities	259,828	349,795	(89,967)	(25.7)
Total liabilities	601,787	750,636	(148,849)	(19.8)
Net position				
Investment in capital assets	550,013	581,539	(31,526)	(5.4)
Unrestricted	312,337	187,406	124,931	66.7
Total net position	\$ 862,350	\$ 768,945	\$ 93,405	12.1

The remaining balance of *unrestricted net position* (36.2 percent) may be used to meet the Dispensary's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Dispensary is able to report positive balances in both categories of net position.

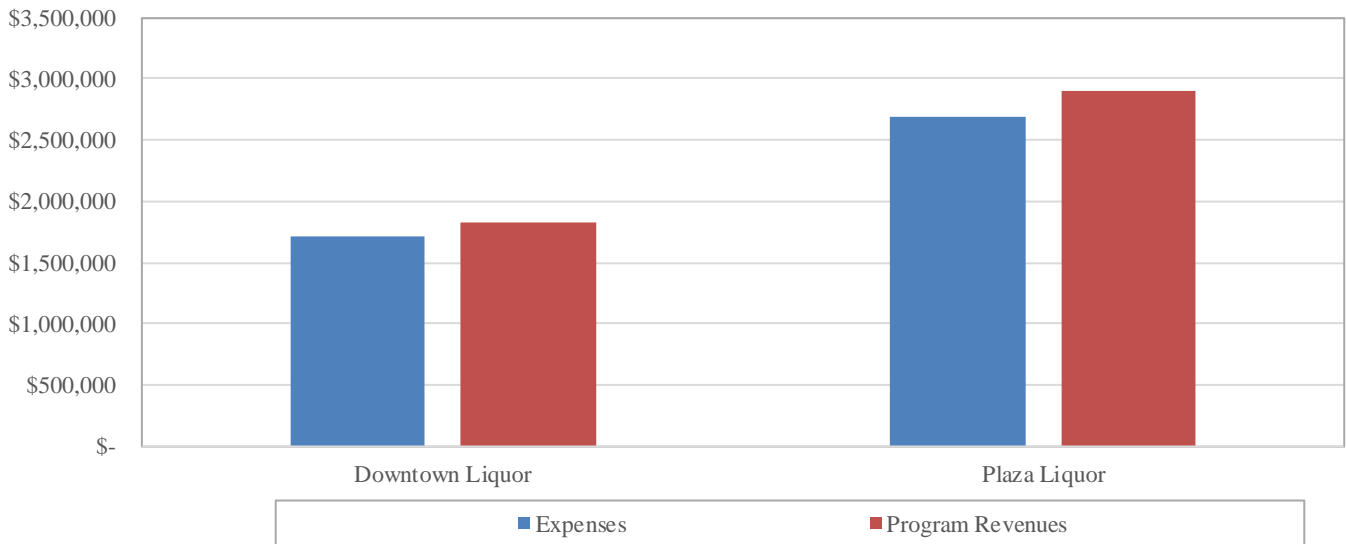
Business-type activities increased net position by \$93,405. Key elements of this increase are described above and summarized as follows:

Municipal Liquor Dispensary's Changes in Net Position

	Business-type Activities			Percentage Increase (Decrease)
	2014	2013	Increase (Decrease)	
Revenues				
Program revenues				
Charges for services and sales	\$ 4,714,369	\$ 4,451,582	\$ 262,787	5.9 %
General revenues				
Unrestricted investment earnings	199	415	(216)	(52.0)
Other revenues	204	554	(350)	(63.2)
Total revenues	4,714,772	4,452,551	262,221	5.9
Expenses and cost of sales				
Liquor	4,421,367	4,203,245	218,122	5.2
Increase in net position before transfers	293,405	249,306	44,099	17.7
Transfers to City	(200,000)	(169,218)	(30,782)	18.2
Change in net position	93,405	80,088	13,317	16.6
Net position - January 1	768,945	688,857	80,088	11.6
Net position - December 31	\$ 862,350	\$ 768,945	\$ 93,405	12.1

The following graphs reflect each function's revenues and expenses and revenues by source for 2014:

Expenses and Program Revenues by Function



Capital Asset and Debt Administration

Capital assets. The Dispensary's investment in capital assets for its business type activities as of December 31, 2014 amounts to \$550,013 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and other improvements.

Major capital asset events during the current fiscal year included the following:

- Point of sale software and operating system totaling \$14,389.
- Cash registers totaling \$18,041.

Additional information on the Dispensary's capital assets can be found in Note 2B starting on page 28 of this report.

Municipal Liquor Dispensary's Capital Assets (net of depreciation)

	Business-type Activities		Increase (Decrease)
	2014	2013	
Land	\$ 101,413	\$ 101,413	\$ -
Buildings	407,023	460,675	(53,652)
Equipment	26,032	1,068	24,964
Other improvements	15,545	18,383	(2,838)
Total	<u>\$ 550,013</u>	<u>\$ 581,539</u>	<u>\$ (31,526)</u>

Long-term debt. At the end of the current fiscal year, the Dispensary had total debt outstanding of \$293,021.

Municipal Liquor Dispensary's Outstanding Debt

	Business-type Activities		Increase (Decrease)
	2014	2013	
Advance from the City	<u>\$ 293,021</u>	<u>\$ 328,986</u>	<u>\$ (35,965)</u>

The Dispensary's total debt decreased \$35,965 during the current fiscal year.

Additional information on the Dispensary's long-term debt can be found in Note 2D starting on page 32 of this report.

Economic Factors and Next Year's Budgets and Rates

- For the year 2015, the Liquor Dispensary's transfer to the City is budgeted to be the same as in 2014 - \$200,000.
- Through the customer service program currently in place, pricing strategies, marketing campaigns and special events, the overall gross profit percentage is expected to reach 24 to 25 percent in 2015.
- Potential capital projects for 2015 include outdoor lighting and signage.
- The unemployment rate for Douglas County is currently 3.7 percent, which is a decrease from a rate of 4.1 percent a year ago. This compares to the State's average unemployment rate of 3.7 percent and is favorable to the national average rate of 5.4 percent.

All of these factors were considered in preparing the Dispensary's budget for the 2015 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Dispensary's finances for all those with an interest in the Dispensary's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Alexandria, 704 Broadway Street, Alexandria, Minnesota 56308.

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FINANCIAL STATEMENTS

**CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
DBA: DOWNTOWN LIQUOR AND
PLAZA LIQUOR STORE
ALEXANDRIA, MINNESOTA**

**FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

CITY OF ALEXANDRIA, MINNESOTA
MUNICIPAL LIQUOR DISPENSARY
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014 AND 2013

	609		610	
	Downtown Liquor		Plaza Liquor	
	2014	2013	2014	2013
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 63,450	\$ 147,591	\$ 83,972	\$ 234,872
Receivables				
Accounts	16,525	12,042	26,392	21,484
Due from other funds	13,877	8,106	54,056	27,980
Due from other City funds	3,002	-	644	58
Inventories	288,019	204,636	357,347	275,778
Prepaid items	3,731	3,731	3,109	1,764
TOTAL CURRENT ASSETS	388,604	376,106	525,520	561,936
NONCURRENT ASSETS				
Capital assets				
Land	68,603	68,603	32,810	32,810
Buildings	432,737	432,737	564,162	564,162
Equipment	95,182	94,714	93,253	106,254
Other improvements	30,996	30,996	25,224	25,224
Less accumulated depreciation	(458,062)	(448,689)	(334,892)	(325,272)
TOTAL NONCURRENT ASSETS	169,456	178,361	380,557	403,178
TOTAL ASSETS	558,060	554,467	906,077	965,114
LIABILITIES				
CURRENT LIABILITIES				
Accounts and contracts payable	46,221	82,778	69,155	155,757
Due to other governments	17,797	14,877	33,081	24,670
Accrued salaries payable	3,991	7,099	5,360	8,808
Compensated absences payable	10,952	8,139	7,260	8,386
Due to other funds	54,056	27,980	13,877	8,106
Due to other City funds	6,601	8,582	7,769	11,138
Unearned revenue	870	-	1,050	-
Advance from the City, current portion	-	9,961	26,795	26,004
TOTAL CURRENT LIABILITIES	140,488	159,416	164,347	242,869
NONCURRENT LIABILITIES,				
Compensated absences payable	16,416	12,401	18,477	21,341
Other postemployment benefit (asset) liability	(5,706)	7,995	1,539	13,593
Advance from the City, net of current maturities	-	-	266,226	293,021
TOTAL NONCURRENT LIABILITIES	10,710	20,396	286,242	327,955
TOTAL LIABILITIES	151,198	179,812	450,589	570,824
NET POSITION				
Investment in capital assets	169,456	178,361	380,557	403,178
Unrestricted	237,406	196,294	74,931	(8,888)
TOTAL NET POSITION	\$ 406,862	\$ 374,655	\$ 455,488	\$ 394,290

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

Totals	
2014	2013
\$ 147,422	\$ 382,463
42,917	33,526
67,933	36,086
3,646	58
645,366	480,414
<u>6,840</u>	<u>5,495</u>
<u>914,124</u>	<u>938,042</u>
101,413	101,413
996,899	996,899
188,435	200,968
56,220	56,220
<u>(792,954)</u>	<u>(773,961)</u>
<u>550,013</u>	<u>581,539</u>
<u>1,464,137</u>	<u>1,519,581</u>
115,376	238,535
50,878	39,547
9,351	15,907
18,212	16,525
67,933	36,086
14,370	19,720
1,920	-
<u>26,795</u>	<u>35,965</u>
<u>304,835</u>	<u>402,285</u>
34,893	33,742
(4,167)	21,588
<u>266,226</u>	<u>293,021</u>
<u>296,952</u>	<u>348,351</u>
<u>601,787</u>	<u>750,636</u>
550,013	581,539
<u>312,337</u>	<u>187,406</u>
<u>\$ 862,350</u>	<u>\$ 768,945</u>

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

CITY OF ALEXANDRIA, MINNESOTA
MUNICIPAL LIQUOR DISPENSARY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

609

Downtown Liquor

	2014	Percent of Sales	2013	Percent of Sales
OPERATING REVENUES				
Sales	\$ 1,820,266	100.0 %	\$ 1,803,597	100.0 %
Cost of sales	(1,336,988)	73.5	(1,396,426)	77.4
TOTAL OPERATING REVENUES	483,278	26.5	407,171	22.6
OPERATING EXPENSES				
Personal services	265,122	14.6	240,947	13.4
Operating supplies and expenses	19,403	1.1	9,436	0.5
Insurance	9,397	0.5	9,666	0.5
Utilities	15,506	0.9	16,100	0.9
Depreciation and amortization	25,065	1.4	20,752	1.2
Other services and charges	46,621	2.6	36,210	2.0
TOTAL OPERATING EXPENSES	381,114	20.9	333,111	18.5
OPERATING INCOME	102,164	5.6	74,060	4.1
NONOPERATING REVENUES (EXPENSES)				
Miscellaneous income	128	-	344	-
Investment income	82	-	161	-
Interest expense	(167)	-	(947)	(0.1)
TOTAL NONOPERATING REVENUES (EXPENSES)	43	-	(442)	(0.1)
INCOME BEFORE TRANSFERS	102,207	5.6	73,618	4.1
TRANSFERS IN FROM THE CITY'S GENERAL FUND	-	-	9,287	0.5
TRANSFERS OUT TO THE CITY'S GENERAL FUND	(70,000)	(3.8)	(65,000)	(3.6)
CHANGE IN NET POSITION	32,207	1.8 %	17,905	1.0 %
NET POSITION, JANUARY 1	374,655		356,750	
NET POSITION, DECEMBER 31	\$ 406,862		\$ 374,655	

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

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Plaza Liquor

Totals

2014		Percent of Sales	2013		Percent of Sales	2014		2013	
\$ 2,894,103		100.0 %	\$ 2,647,985		100.0 %	\$ 4,714,369		\$ 4,451,582	
(2,267,044)		78.3	(2,047,745)		77.3	(3,604,032)		(3,444,171)	
627,059		21.7	600,240		22.7	1,110,337		1,007,411	
263,367		9.1	281,853		10.6	528,489		522,800	
20,391		0.7	12,878		0.5	39,794		22,314	
12,979		0.4	13,347		0.5	22,376		23,013	
17,705		0.6	16,701		0.6	33,211		32,801	
38,891		1.3	35,637		1.3	63,956		56,389	
73,392		2.5	54,617		2.1	120,013		90,827	
426,725		14.7	415,033		15.7	807,839		748,144	
200,334		6.9	185,207		7.0	302,498		259,267	
76		-	210		-	204		554	
117		-	254		-	199		415	
(9,329)		(0.3)	(9,983)		(0.4)	(9,496)		(10,930)	
(9,136)		(0.3)	(9,519)		(0.4)	(9,093)		(9,961)	
191,198		6.6	175,688		6.6	293,405		249,306	
-		-	21,495		0.8	-		30,782	
(130,000)		(4.5)	(135,000)		(5.1)	(200,000)		(200,000)	
61,198		<u>2.1 %</u>	62,183		<u>2.3 %</u>	93,405		80,088	
394,290			332,107			768,945		688,857	
<u>\$ 455,488</u>			<u>\$ 394,290</u>			<u>\$ 862,350</u>		<u>\$ 768,945</u>	

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

CITY OF ALEXANDRIA, MINNESOTA
MUNICIPAL LIQUOR DISPENSARY
STATEMENTS OF CASH FLOWS - CONTINUED ON THE FOLLOWING PAGES
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	609		610	
	Downtown Liquor		Plaza Liquor	
	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,807,880	\$ 1,795,823	\$ 2,863,583	\$ 2,613,962
Payments to suppliers and vendors	(1,520,840)	(1,428,072)	(2,550,214)	(2,121,205)
Payments to and on behalf of employees	(275,103)	(244,438)	(282,859)	(302,205)
Other receipts	128	344	76	210
	<u>12,065</u>	<u>123,657</u>	<u>30,586</u>	<u>190,762</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES				
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer in from the City's General fund	-	9,287	-	21,495
Transfer out to the City's General fund	(70,000)	(65,000)	(130,000)	(135,000)
	<u>(70,000)</u>	<u>(55,713)</u>	<u>(130,000)</u>	<u>(113,505)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES				
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(16,160)	-	(16,270)	-
Principal paid on advance from the City	(9,961)	(16,426)	(26,004)	(25,244)
Interest paid on advance from the City	(167)	(947)	(9,329)	(9,983)
	<u>(26,288)</u>	<u>(17,373)</u>	<u>(51,603)</u>	<u>(35,227)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES				
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on cash and investments	82	161	117	268
	<u>82</u>	<u>161</u>	<u>117</u>	<u>268</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(84,141)	50,732	(150,900)	42,298
CASH AND CASH EQUIVALENTS, JANUARY 1	147,591	96,859	234,872	192,574
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 63,450</u>	<u>\$ 147,591</u>	<u>\$ 83,972</u>	<u>\$ 234,872</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 102,164	\$ 74,060	\$ 200,334	\$ 185,207
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	25,065	20,752	38,891	35,637
Other income related to operations	128	344	76	210
(Increase) decrease in assets				
Accounts receivable	(4,483)	(1,913)	(4,908)	(6,803)
Due from other funds/departments	(8,773)	(5,861)	(26,662)	(27,220)
Inventories	(83,383)	232	(81,569)	(22,527)
Prepaid items	-	(524)	(1,345)	1,413
Increase (decrease) in liabilities				
Accounts and contracts payable	(36,557)	3,468	(86,602)	27,231
Due to other governments	2,920	40	8,411	708
Due to other funds/departments	24,095	36,550	2,402	17,258
Accrued salaries payable	(3,108)	933	(3,448)	(848)
Compensated absences payable	6,828	(3,213)	(3,990)	(18,038)
Unearned revenue	870	-	1,050	-
Other postemployment benefits (asset) liability	(13,701)	(1,211)	(12,054)	(1,466)
	<u>\$ 12,065</u>	<u>\$ 123,657</u>	<u>\$ 30,586</u>	<u>\$ 190,762</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				

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

Totals	
2014	2013
\$ 4,671,463	\$ 4,409,785
(4,071,054)	(3,549,277)
(557,962)	(546,643)
204	554
42,651	314,419
-	30,782
(200,000)	(200,000)
(200,000)	(169,218)
(32,430)	-
(35,965)	(41,670)
(9,496)	(10,930)
(77,891)	(52,600)
199	429
(235,041)	93,030
382,463	289,433
\$ 147,422	\$ 382,463
\$ 302,498	\$ 259,267
63,956	56,389
204	554
(9,391)	(8,716)
(35,435)	(33,081)
(164,952)	(22,295)
(1,345)	889
(123,159)	30,699
11,331	748
26,497	53,808
(6,556)	85
2,838	(21,251)
1,920	-
(25,755)	(2,677)
\$ 42,651	\$ 314,419

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

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CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
DBA: DOWNTOWN LIQUOR STORE
AND PLAZA LIQUOR STORE
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Municipal Liquor Dispensary (the Dispensary) of the City of Alexandria, Minnesota (the City), is an enterprise fund used to report business-type activities. The Dispensary consists of two departments/locations, "Downtown Liquor Store" and "Plaza Liquor Store." Each is a retail (off-sale) establishment within the Alexandria city limits. The accompanying financial statements present the financial position, changes in financial position and cash flows of the Dispensary. The Dispensary is governed by the City Council (the Council), the Liquor commission is comprised of the Mayor and two City Council members and acts as an advisory body to the Council on matters of the Dispensary.

The financial statements of the Dispensary have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial report standards. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

The Dispensary 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 Dispensary are such that exclusion would cause the Dispensary's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The Dispensary has no component units that meet the GASB criteria.

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

The Dispensary's financial statements are reported using the *accrual basis of accounting* in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred.

The accounting and financial reporting treatment applied to the Dispensary is determined by its measurement focus. The transactions of the Dispensary are accounted for on the flow of *economic resources measurement focus*. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheets. Net position (i.e., total assets net of total liabilities) are segregated into net invested in capital assets; restricted; and unrestricted components.

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.

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.

The Dispensary reports the following major proprietary funds:

The *Downtown Liquor fund* accounts for costs associated with the Downtown Liquor Store and to ensure that charges are sufficient to pay for those costs.

The *Plaza Liquor fund* accounts for costs associated with the Plaza Liquor Store and to ensure that charges are sufficient to pay for those costs.

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Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 Dispensary's enterprise funds are charges to customers for sales and services.

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

C. Assets, liabilities, and net position

Deposits and investments

In accordance with Minnesota Statutes, the Municipal Liquor Dispensary maintains deposits at those institutions authorized by the Council. All such depositories are members of the Federal Reserve System, State designated investment pools, or the U.S. Treasury.

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investment policy

The Municipal Liquor Dispensary has adopted an investment policy, which follows Minnesota Statutes.

In accordance with Minnesota statute 118A.03 on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

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Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable

Included in this account are credit card charges not yet received and non-sufficient funds checks returned to the Dispensary's that are expected to be collected. Management has determined that no substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed appropriate.

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."

Inventories

Inventories consist of items for resale and is recorded at lower of cost or market on an average cost basis.

Prepaid items

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Council as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property and equipment are recorded at cost less accumulated depreciation. Capital assets are assets with a cost of \$2,500 or greater.

Depreciation is computed on the straight-line method over the following useful lives:

Assets	Years
Building	10 - 50
Furniture and equipment	5 - 15
Other improvements	5 - 25

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Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Postemployment benefits other than pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was determined by the alternative valuation method, in accordance with GASB Statement 45, at January 1, 2014.

Long-term obligations

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

Net position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. Net position is displayed in three components:

- a. Investments 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 restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "investment in capital assets."

Note 2: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Dispensary's deposits and investments may not be returned or the Dispensary 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 Council, the Dispensary maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all Dispensary 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 or bonds.

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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

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 government entity.

At December 31, 2014, the Downtown Liquor and Plaza Liquor carrying amounts of deposits were \$61,950 and \$82,272, and the bank balances were \$114,633 and \$145,521, respectively. At December 31, 2013, the Downtown Liquor and Plaza Liquor carrying amounts of deposits were \$146,091 and \$232,872, and the bank balances were \$145,742 and \$226,735, respectively. Of the bank balances for 2014 and 2013, the total amount was covered by federal depository insurance.

Cash on hand

Cash in the possession of the Dispensary, consisting of petty cash and change funds, totaled \$3,200 as of December 31, 2014 and \$3,500 as of December, 31 2013.

Cash and investments summary

A reconciliation of cash and investments as shown on the statements of net position for the Dispensary follows:

Downtown Liquor store

	2014	2013
Carrying amount of deposits	\$ 61,950	\$ 146,091
Cash on hand	1,500	1,500
Total cash and temporary investments	\$ 63,450	\$ 147,591

Plaza Liquor store

	2014	2013
Carrying amount of deposits	\$ 82,272	\$ 232,872
Cash on hand	1,700	2,000
Total cash and temporary investments	\$ 83,972	\$ 234,872

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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Capital assets

Capital asset activity for the Downtown Liquor store for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 68,603	\$ -	\$ -	\$ 68,603
Capital assets being depreciated				
Buildings	432,737	-	-	432,737
Equipment	94,714	16,160	(15,692)	95,182
Other improvements	30,996	-	-	30,996
Total capital assets being depreciated	558,447	16,160	(15,692)	558,915
Less accumulated depreciation for				
Buildings	(333,797)	(19,980)	-	(353,777)
Equipment	(94,491)	(3,455)	15,692	(82,254)
Other improvements	(20,401)	(1,630)	-	(22,031)
Total accumulated depreciation	(448,689)	(25,065)	15,692	(458,062)
Total capital assets being depreciated, net	109,758	(8,905)	-	100,853
Business-type activities capital assets, net	\$ 178,361	\$ (8,905)	\$ -	\$ 169,456

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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Capital asset activity for the Downtown Liquor store for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 68,603	\$ -	\$ -	\$ 68,603
Capital assets being depreciated				
Buildings	432,737	-	-	432,737
Equipment	94,714	-	-	94,714
Other improvements	30,996	-	-	30,996
Total capital assets being depreciated	558,447	-	-	558,447
Less accumulated depreciation for				
Buildings	(316,453)	(17,344)	-	(333,797)
Equipment	(92,713)	(1,778)	-	(94,491)
Other improvements	(18,771)	(1,630)	-	(20,401)
Total accumulated depreciation	(427,937)	(20,752)	-	(448,689)
Total capital assets being depreciated, net	130,510	(20,752)	-	109,758
Business-type activities capital assets, net	\$ 199,113	\$ (20,752)	\$ -	\$ 178,361

CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Capital asset activity for the Plaza Liquor store for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 32,810	\$ -	\$ -	\$ 32,810
Capital assets being depreciated				
Buildings	564,162	-	-	564,162
Equipment	106,254	16,270	(29,271)	93,253
Other improvements	25,224	-	-	25,224
Total capital assets being depreciated	695,640	16,270	(29,271)	682,639
Less accumulated depreciation for				
Buildings	(202,427)	(33,672)	-	(236,099)
Equipment	(105,409)	(4,011)	29,271	(80,149)
Other improvements	(17,436)	(1,208)	-	(18,644)
Total accumulated depreciation	(325,272)	(38,891)	29,271	(334,892)
Total capital assets being depreciated, net	370,368	(22,621)	-	347,747
Business-type activities capital assets, net	\$ 403,178	\$ (22,621)	\$ -	\$ 380,557

CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Capital asset activity for the Plaza Liquor store for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 32,810	\$ -	\$ -	\$ 32,810
Capital assets being depreciated				
Buildings	564,162	-	-	564,162
Equipment	106,254	-	-	106,254
Other improvements	25,224	-	-	25,224
Total capital assets being depreciated	695,640	-	-	695,640
Less accumulated depreciation for				
Buildings	(168,755)	(33,672)	-	(202,427)
Equipment	(104,652)	(757)	-	(105,409)
Other improvements	(16,228)	(1,208)	-	(17,436)
Total accumulated depreciation	(289,635)	(35,637)	-	(325,272)
Total capital assets being depreciated, net	406,005	(35,637)	-	370,368
Business-type activities capital assets, net	\$ 438,815	\$ (35,637)	\$ -	\$ 403,178

C. Interfund receivables, payables and transfers

Due to/from other funds

Due to/from other funds at December 31, 2014 and 2013 consisted of the following:

Receivable Fund	Payable Fund	2014 Amount	2013 Amount
Downtown Liquor	Plaza Liquor	\$ 13,877	\$ 8,106
Plaza Liquor	Downtown Liquor	54,056	27,980
Totals		\$ 67,933	\$ 36,086

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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Due to/from City funds

Due to/from City funds at December 31, 2014 and 2013 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>2014 Amount</u>	<u>2013 Amount</u>
Downtown Liquor	City funds	\$ 3,002	\$ -
Plaza Liquor	City funds	644	58
City funds	Downtown Liquor	6,601	8,582
City funds	Plaza Liquor	7,769	11,138
Totals		<u>\$ 18,016</u>	<u>\$ 19,778</u>

Interfund transfers

There was a transfer out of the Downtown Liquor for \$70,000 and Plaza Liquor for \$130,000 to the City's General fund for the year ended December 31, 2014.

There was a transfer out of the Downtown Liquor for \$65,000 and Plaza Liquor for \$135,000 to the City's General fund for the year ended December 31, 2013. Also in 2013, transfers were made from the City's General fund to the Downtown Liquor for \$9,287 and Plaza Liquor for \$21,495.

D. Long-term debt

Advance from the City

There was an advance from the City for remodeling and an addition to the Plaza Liquor store. This will be retired from net revenue from the Plaza Liquor store.

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
Due to the City of Alexandria	\$ 425,000	3.00 %	07/01/09	07/01/24	<u>\$ 293,021</u>

Annual requirement to maturity for long-term liabilities is as follows:

<u>Year Ending December 31,</u>	Advance from the City Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 26,795	\$ 8,424	\$ 35,219
2016	27,610	7,609	35,219
2017	28,450	6,769	35,219
2018	29,315	5,904	35,219
2019	30,207	5,012	35,219
2020 - 2024	150,644	10,783	161,427
Totals	<u>\$ 293,021</u>	<u>\$ 44,501</u>	<u>\$ 337,522</u>

CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

Long-term debt activity at Downtown Liquor store for the year ended December 31, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Advance from the City	\$ 9,961	\$ -	\$ (9,961)	\$ -	\$ -
Compensated absences	20,540	15,391	(8,563)	27,368	10,952
Other postemployment benefits obligation (asset)	<u>7,995</u>	<u>3,465</u>	<u>(17,166)</u>	<u>(5,706)</u>	<u>-</u>
Totals	<u>\$ 38,496</u>	<u>\$ 18,856</u>	<u>\$ (35,690)</u>	<u>\$ 21,662</u>	<u>\$ 10,952</u>

Long-term debt activity at Downtown Liquor store for the year ended December 31, 2013 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Advance from the City	\$ 26,387	\$ -	\$ (16,426)	\$ 9,961	\$ 9,961
Compensated absences	23,753	4,751	(7,964)	20,540	8,139
Other postemployment benefits obligation	<u>9,206</u>	<u>4,544</u>	<u>(5,755)</u>	<u>7,995</u>	<u>-</u>
Totals	<u>\$ 59,346</u>	<u>\$ 9,295</u>	<u>\$ (30,145)</u>	<u>\$ 38,496</u>	<u>\$ 18,100</u>

Long-term debt activity at Plaza Liquor store for the year ended December 31, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Advance from the City	\$ 319,025	\$ -	\$ (26,004)	\$ 293,021	\$ 26,795
Compensated absences	29,727	14,113	(18,103)	25,737	7,260
Other postemployment benefits obligation	<u>13,593</u>	<u>4,074</u>	<u>(16,128)</u>	<u>1,539</u>	<u>-</u>
Totals	<u>\$ 362,345</u>	<u>\$ 18,187</u>	<u>\$ (60,235)</u>	<u>\$ 320,297</u>	<u>\$ 34,055</u>

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Note 2: DETAILED NOTES ON ALL FUNDS - CONTINUED

Long-term debt activity at Plaza Liquor store for the year ended December 31, 2013 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Advance from the City	\$ 344,262	\$ -	\$ (25,237)	\$ 319,025	\$ 26,004
Compensated absences	47,765	14,993	(33,031)	29,727	8,386
Other postemployment benefits obligation	<u>15,059</u>	<u>3,013</u>	<u>(4,479)</u>	<u>13,593</u>	<u>-</u>
Totals	<u>\$ 407,086</u>	<u>\$ 18,006</u>	<u>\$ (62,747)</u>	<u>\$ 362,345</u>	<u>\$ 34,390</u>

Note 3: DEFINED BENEFIT PENSION PLAN – STATEWIDE

A. Plan description

All full-time and certain part-time employees of the City of Alexandria Municipal Liquor Dispensary are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356.

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. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota statute, and vest after five years of credited service. The defined retirement 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 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 10 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 10 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 PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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Note 3: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding policy

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The Dispensary makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.20 percent of their annual covered salary in 2014. In 2014, the Dispensary was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.25 percent for Coordinated Plan members, and 15.3 percent for PEPFF members. The Dispensary's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$25,931, \$29,991, and \$25,794, respectively. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

Note 4: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. Plan description

The Dispensary makes available to eligible retirees and their spouses a single-employer defined benefit healthcare plan. The plan offers medical coverage.

B. Funding policy

The Dispensary does not provide healthcare coverage for retired employees. Rather, it allows employees who separate from Municipal Liquor Dispensary employment due to retirement or disability, access to the coverage; however, that coverage is paid for at the former employees' expense.

C. Annual OPEB cost and net OPEB obligation

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

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 DECEMBER 31, 2014 AND 2013

Note 4: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

The following table shows the components of the Dispensary's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in the Dispensary's net OPEB obligation to the plan.

Downtown Liquor

	2014	2013
Annual required contribution	\$ 3,607	\$ 4,708
Interest on net OPEB obligation	320	368
Adjustment to annual required contribution	(462)	(532)
Annual OPEB cost (expense)	3,465	4,544
Contributions made - implicit	(4,830)	(1,643)
Contributions made - actual	(12,336)	(4,112)
Total contributions made	(17,166)	(5,755)
Increase (decrease) in net OPEB obligation	(13,701)	(1,211)
Net OPEB obligation - beginning of year	7,995	9,206
Net OPEB obligation (asset) - end of year	\$ (5,706)	\$ 7,995

Plaza Liquor

	2014	2013
Annual required contribution	\$ 4,316	\$ 3,282
Interest on net OPEB obligation	544	602
Adjustment to annual required contribution	(786)	(871)
Annual OPEB cost (expense)	4,074	3,013
Contributions made - implicit	(3,792)	(1,395)
Contributions made - actual	(12,336)	(3,084)
Total contributions made	(16,128)	(4,479)
Increase (decrease) in net OPEB obligation	(12,054)	(1,466)
Net OPEB obligation - beginning of year	13,593	15,059
Net OPEB obligation - end of year	\$ 1,539	\$ 13,593

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Note 4: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

The Dispensary's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending December 31, 2014 was as follows:

Downtown Liquor

<u>Year Ending</u>	<u>Three Year Trend Information</u>		
	<u>Annual OPEB cost</u>	<u>Percentage Annual OPEB Contribution</u>	<u>Net OPEB Obligation (Asset)</u>
12/31/14	\$ 3,465	139.4 %	\$ (5,706)
12/31/13	4,544	36.2	7,995
12/31/12	4,242	22.6	9,206

Plaza Liquor

<u>Year Ending</u>	<u>Three Year Trend Information</u>		
	<u>Annual OPEB cost</u>	<u>Percentage Annual OPEB Contribution</u>	<u>Net OPEB Obligation</u>
12/31/14	\$ 4,074	93.1 %	\$ 1,539
12/31/13	3,013	46.3	13,593
12/31/12	2,939	24.4	15,059

D. Funded status and funding progress

As of January 1, 2014, the most recent actuarial valuation date, the Downtown Liquor Store had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$35,080 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$35,080. The annual payroll of active employees covered by the plan was \$151,900 and the ratio of the UAAL to the covered payroll was 23.09 percent.

As of January 1, 2014, the most recent actuarial valuation date, the Plaza Liquor Store had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$57,514 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$57,514. The annual payroll of active employees covered by the plan was \$162,900 and the ratio of the UAAL to the covered payroll was 35.31 percent.

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

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Note 4: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

E. Methods and assumptions

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

In the January 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend was 7.5 percent, reduced by decrements to an ultimate rate of 5 percent after eight years. The UAAL is being amortized as a level of percentage of projected payrolls on a closed basis. The remaining amortization period at January 1, 2014 was 30 years.

Note 5: OTHER INFORMATION

Risk management

The Dispensary is exposed to various risks of loss related to torts, theft or destruction of assets, errors and omissions, injuries to employees, employees' health and life, and natural disasters. As a proprietary fund of the City, the Dispensary manages its various risks of loss through the commercial insurance coverage of the City. The City purchases commercial insurance coverage for such risks from the League of Minnesota Cities Insurance Trust (LMCIT).

The City participates in the LMCIT, a public entity risk pool for its workers' compensation insurance. The LMCIT operates as a common risk management and insurance program for its members. The Liquor Stores pay an annual premium to the LMCIT for their insurance coverage. The LMCIT agreement provides that the LMCIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits for each insured event.

There has been no significant reduction in insurance coverage from the previous year in any of the City's policies. In addition, there have been no settlements in excess of the City's insurance coverage in any of the prior three years.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45), which addresses how state and local governments must account for and report their obligations related to postemployment healthcare and other non-pension benefits (referred to as Other Postemployment Benefits or "OPEB"). GASB 45 requires that local governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
DBA: DOWNTOWN LIQUOR AND
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ALEXANDRIA, MINNESOTA

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DECEMBER 31, 2014

CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
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 ALEXANDRIA, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS
 FOR THE YEAR ENDED DECEMBER 31, 2014

Schedule of funding progress for other postemployment benefit plan

Downtown Liquor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/14	\$ -	\$ 35,080	\$ 35,080	0.00 %	\$ 151,900	23.09 %
01/01/11	-	17,556	17,556	0.00	169,097	10.38
01/01/08	-	14,566	14,566	0.00	90,324	16.13

Plaza Liquor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/14	\$ -	\$ 57,514	\$ 57,514	0.00 %	\$ 162,900	35.31 %
01/01/11	-	22,452	22,452	0.00	203,739	11.02
01/01/08	-	22,474	22,474	0.00	159,053	14.13

OTHER REQUIRED REPORTS

CITY OF ALEXANDRIA MUNICIPAL LIQUOR DISPENSARY
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ALEXANDRIA, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Council Members
City of Alexandria Municipal Liquor Dispensary
Alexandria, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the City of Alexandria Municipal Liquor Dispensary (the Dispensary) as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

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

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

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
March 17, 2015



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 Council Members
City of Alexandria Municipal Liquor Dispensary
Alexandria, 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 City of Alexandria Municipal Liquor Dispensary (the Dispensary) as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Dispensary'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 Dispensary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Dispensary'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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dispensary'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*.

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 Dispensary'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 Dispensary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
March 17, 2015