

**CITY OF ROSEAU  
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

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**CITY OF ROSEAU, MINNESOTA  
CITY OFFICIALS  
DECEMBER 31, 2012**

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Mayor	Jeff Pelowski
Council	Patrick Novacek
Council	Linda Vatnsdal
Council	Curt Ireland
Council	Gerry Schiltz
City Clerk	Janet Lundbohm
City Treasurer	Charlotte Erickson
Community Development Coordinator	Todd Peterson



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Roseau  
Roseau, Minnesota

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2012, 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 of America. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents as required supplementary information 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.

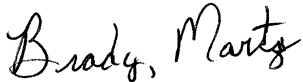
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Roseau's financial statements as a whole. The combining statements and schedules as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2013, on our consideration of the City of Roseau'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.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

June 13, 2013

**CITY OF ROSEAU, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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As management of the City of Roseau, we offer readers of the City of Roseau's financial statements this narrative overview and analysis of the financial activities of the City of Roseau for the fiscal year ended December 31, 2012.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$55,093,820 (net position). Of this amount, \$8,712,145 may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, the unrestricted fund balance for the general fund was \$448,493, or 11% of the total general fund expenditures.

**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 supplementary information in addition to the basic financial statements themselves.

**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 and liabilities, with the difference between the two 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 revenues (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, and airport. The business-type activities of the City include, liquor, water, electric, sewer service, townhomes and garbage.

**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 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 used 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 of 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 six individual governmental 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

**CITY OF ROSEAU, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

general fund, community and economic development fund, and capital projects fund, all of which are considered major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and community and economic development fund to demonstrate compliance with this budget.

**Proprietary Funds.** *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its liquor operations, water, electric, sewer service, townhomes and garbage collection.

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 all proprietary funds all of which are considered major funds, except for the garbage collection fund.

**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 combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budgetary comparisons.

**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 \$55,093,820 at the close of the most recent fiscal year.

**Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 2,625,647	\$ 2,974,338	\$ 7,339,521	\$ 7,378,488	\$ 9,965,168	\$ 10,352,826
Capital Assets	38,053,091	37,024,212	10,824,536	11,192,011	48,877,627	48,216,223
Total Assets	<u>40,678,738</u>	<u>39,998,550</u>	<u>18,164,057</u>	<u>18,570,499</u>	<u>58,842,795</u>	<u>58,569,049</u>
Long-term Liabilities	327,813	403,700	2,969,079	3,151,905	3,296,892	3,555,605
Other Liabilities	51,385	180,120	400,698	391,137	452,083	571,257
Total Liabilities	<u>379,198</u>	<u>583,820</u>	<u>3,369,777</u>	<u>3,543,042</u>	<u>3,748,975</u>	<u>4,126,862</u>
Net Position						
Net Investment in						
Capital Assets	38,053,091	36,947,639	7,938,557	8,124,706	45,991,648	45,072,345
Restricted	202,337	199,180	187,690	175,697	390,027	374,877
Unrestricted	2,044,112	2,267,911	6,668,033	6,727,054	8,712,145	8,994,965
Total Net Position	<u>\$ 40,299,540</u>	<u>\$ 39,414,730</u>	<u>\$ 14,794,280</u>	<u>\$ 15,027,457</u>	<u>\$ 55,093,820</u>	<u>\$ 54,442,187</u>

A portion of the City's net position (83%) reflects its investment in capital assets (e.g., land, construction in process, buildings, improvements other than buildings, machinery and equipment), less any related debt used to acquire assets that is 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 investments 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 ROSEAU, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Change in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 367,095	\$ 352,801	\$ 7,102,450	\$ 6,979,923	\$ 7,469,545	\$ 7,332,724
Operating Grants and Contributions	612,718	169,028			612,718	169,028
Capital Grants and Contributions	673,207	4,340,082			673,207	4,340,082
<b>General Revenues</b>						
Taxes	1,186,485	1,133,056	7,215	7,306	1,193,700	1,140,362
Unrestricted State Aid	574,002	583,863			574,002	583,863
Unrestricted Investment Earnings	79,477	101,949	1,320	1,545	80,797	103,494
Gain on Sale of Capital Assets		9,297				9,297
Other General Revenue	100,146	97,077			100,146	97,077
<b>Total Revenues</b>	<u>3,593,130</u>	<u>6,787,153</u>	<u>7,110,985</u>	<u>6,988,774</u>	<u>10,704,115</u>	<u>13,775,927</u>
<b>Expenses</b>						
General Government	464,755	486,824			464,755	486,824
Public Safety	1,040,721	910,361			1,040,721	910,361
Public Works	948,018	1,065,511			948,018	1,065,511
Culture and Recreation	744,128	754,832			744,128	754,832
Economic Development	317,824	191,482			317,824	191,482
Airport	118,942	183,601			118,942	183,601
Interest on Long-term Debt	10,003	18,694			10,003	18,694
Municipal Liquor Store			1,512,522	1,401,984	1,512,522	1,401,984
Water			546,249	563,805	546,249	563,805
Electric			3,365,370	3,354,407	3,365,370	3,354,407
Sewer Service			437,421	457,800	437,421	457,800
Roseau Court Townhomes			183,417	182,253	183,417	182,253
Garbage			363,112	363,277	363,112	363,277
<b>Total Expenses</b>	<u>3,644,391</u>	<u>3,611,305</u>	<u>6,408,091</u>	<u>6,323,526</u>	<u>10,052,482</u>	<u>9,934,831</u>
<b>Change in Net Position Before Transfers</b>	(51,261)	3,175,848	702,894	665,248	651,633	3,841,096
<b>Transfers</b>	<u>936,071</u>	<u>336,071</u>	<u>(936,071)</u>	<u>(336,071)</u>		
<b>Change in Net Position</b>	884,810	3,511,919	(233,177)	329,177	651,633	3,841,096
<b>Net Position - January 1</b>	<u>39,414,730</u>	<u>35,902,811</u>	<u>15,027,457</u>	<u>14,698,280</u>	<u>54,442,187</u>	<u>50,601,091</u>
<b>Net Position - December 31</b>	<u>\$ 40,299,540</u>	<u>\$ 39,414,730</u>	<u>\$ 14,794,280</u>	<u>\$ 15,027,457</u>	<u>\$ 55,093,820</u>	<u>\$ 54,442,187</u>

**Governmental activities.** The change in net position before transfers was a decrease of \$51,261. The governmental activities received \$936,071 from the business-type activities during 2012, resulting in an increase in net position of \$884,810.

**Business-type activities.** The change in net position before transfers was an increase \$702,894. The business-type activities transferred \$936,071 to the governmental activities, resulting in a decrease in net position of \$233,177.

**CITY OF ROSEAU, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**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, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**Major Funds**

	Fund Balance / Net Position		Increase (Decrease)	Percentage Increase (Decrease)
	12/31/2012	12/31/2011		
Governmental Funds				
General	\$ 448,493	\$ 515,810	\$ (67,317)	-13%
Community and Economic Development	505,371	449,156	56,215	13%
Capital Projects	13,255	10,664	2,591	24%
Proprietary Funds				
Municipal Liquor Store	931,589	868,401	63,188	7%
Water	3,908,869	4,071,394	(162,525)	-4%
Electric	5,025,094	4,560,837	464,257	10%
Sewer Service	4,638,022	5,223,909	(585,887)	-11%
Roseau Court Townhomes	(346,021)	(305,353)	(40,668)	-13%

**General Fund Budgetary Highlights**

During the year the City did not amend the budget.

The City received revenues over the budgeted amounts of \$50,490 and expended \$804,481 less than budget. The majority of the difference is a result of the city not getting funding for a budgeted airport project.

**Capital Assets and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to \$48,877,627 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, improvements other than buildings, and machinery and equipment.

**Capital Assets  
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,137,800	\$ 1,137,800	\$ 292,613	\$ 292,613	\$ 1,430,413	\$ 1,430,413
Construction in Process	9,782,684	9,137,702			9,782,684	9,137,702
Buildings	10,521,126	10,824,091	1,886,815	1,947,436	12,407,941	12,771,527
Improvements Other Than Buildings	15,716,407	14,891,174	50,614	55,015	15,767,021	14,946,189
Plant and Equipment			8,441,400	8,709,088	8,441,400	8,709,088
Machinery and Equipment	895,074	1,033,445	153,094	187,859	1,048,168	1,221,304
Total	\$ 38,053,091	\$ 37,024,212	\$ 10,824,536	\$ 11,192,011	\$ 48,877,627	\$ 48,216,223

**CITY OF ROSEAU, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

Major capital asset events during the fiscal year included the planning and design phase of the East Diversion Flood Control Project and the purchase of land for the diversion project. The City also completed a street improvement project in 2012 which included improvements to water and sewer lines.

Additional information on the City's capital assets can be found in Note 5 of this report.

**Long-term Debt.** At the end of the current fiscal year, the City had \$3,071,392 in bonds and other long-term obligations.

**Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$
General Obligation Bonds			292,164	360,871	292,164	360,871
Revenue Bonds				105,000		105,000
Lease Payable		40,624				40,624
Loans Payable	185,413	229,976	2,593,815	2,601,434	2,779,228	2,831,410
Total	<u>\$ 185,413</u>	<u>\$ 270,600</u>	<u>\$ 2,885,979</u>	<u>\$ 3,067,305</u>	<u>\$ 3,071,392</u>	<u>\$ 3,337,905</u>

Additional information on the City's long-term debt can be found in Note 7 of this report.

**Economic Factors**

The improving national economic recovery has helped Roseau's area employers in 2012, particularly those dependent on the national housing market; however, Roseau's major economic engines, Polaris Industries and agricultural production, both did exceedingly well again in 2012, as they did in 2011. The region did not experience any significant layoffs or business closings in 2012. Furthermore, Polaris Industries added a significant number of new employees to its payroll in Roseau in 2012. In addition, 2012 brought the announcement of two national franchise retail businesses planning openings in the community in 2013. The community expects to see additional business development in future.

Continuing budget difficulties at both the State and Federal levels have resulted in reduced aids for local government units, including the City of Roseau. Nevertheless, the City of Roseau overall has not witnessed significant reductions in revenues from its operations. Furthermore, the City's low debt levels and newer infrastructure place it in a good position to maintain existing services without significantly increasing tax or fee levels to local residents and businesses in the face of diminishing state and federal aids and revenues. The City of Roseau maintains a lean workforce and an overall streamlined operation. The City's on-going efforts to reduce costs of services along with its ability to supplement funding for general city operations with revenues generated from enterprise operations has insulated the City from reductions in Local Government Aid from the State of Minnesota. LGA represents less than 10% of the City's total revenue and recent LGA reductions have represent less than 1% of the City's overall revenue.

The City of Roseau's tax and employment base is largely dependent upon two major employers, Polaris Industries and LifeCare Medical Center. Both entities continue to show commitment to Roseau through investments in their local facilities. Polaris continues to design and manufacture new products in Roseau including all snowmobiles and many of the most popular models of ATV's and Ranger RZR products. Many of Polaris' newest market entries have been designed and/or manufactured in Roseau. In 2012 Polaris experienced continued increases in demand for product that resulted in the hiring of additional staff, both in engineering/design and production. In 2012, Polaris Industries initiated a \$4.6 million plant expansion in Roseau to accommodate the company's continued growth and demand for products.

LifeCare Medical Center continues to invest in new improvements to its facility, purchase new equipment and add new staff. In 2012 LifeCare Medical Center opened a new dialysis unit along with other improvements to the facility. Altru Clinic continues to seek additional doctors to staff the local Roseau clinic to improve care services for local residents.

The Roseau housing market for existing homes and rental units has become constrained and is limiting the community's ability to grow and provide housing for its local labor force. Houses in the community are selling at a much faster rate and at premiums due to the increased hiring at Polaris Industries and other local employers. Home values have strengthened across the board. Vacancy rates within the rental housing market is 0% according to a 2012 housing study and there are

**CITY OF ROSEAU, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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efforts underway by the city and other agencies to construct new rental housing units and single family homes within the City.

Farm commodity prices in 2012 continue to provide a strong boost to the regional economy. The local farm economy provides additional diversification and stability for the overall local economy.

In 2012, the U.S. Army Corps of Engineers substantially completed the second construction contract on the City's East Diversion permanent flood protection project bringing the flood control project to nearly  $\frac{3}{4}$  complete. Nearly 75% of the community lies within the 100-year floodplain of the Roseau River. The floodplain presents a number of challenges to community development and results in increased costs for construction and insurance in the community. When complete, the East Diversion project will remove the entire City from the 100-year regulatory floodplain. Substantial completion of the flood control project is anticipated in 2014.

The greatest issues of concern for the City's on-going operations include many of the following:

- Continued reductions or the elimination of aids and grants from the State and Federal Government for on-going city operations.
- Slowing economy or changing market forces resulting in reduced hours and/or major layoffs at area employers.
- Inability to increase the housing supply in the community to attract and retain the workforce for local employers.
- Poor economic conditions resulting in increased tax delinquencies and reduced enterprise sales.
- Increasing costs of employee pension and health benefits.
- Increasing costs of energy and supplies.
- Efforts by the State and Federal governments to regulate and or restrict the use of coal-fired power plants for the production of electricity, of which the City of Roseau is a coal powered generation owner and provider.
- Increased regulations on sanitary sewer effluent, storm water discharge, and other environmental regulations on day-to-day city operations that would dramatically increase costs of service with limited ability to recapture those costs through improved service.
- State or Federal legislation restricting or eliminating the City's ability to operate various revenue generating enterprises and transfer of those profits to the general fund.
- Inability of the Corps of Engineers to complete the East Diversion Project due to funding limitations by Congress.

**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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk-Treasurer, City of Roseau, 121 Center Street East, Suite 202, Roseau, MN 56751.

**CITY OF ROSEAU, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

**Exhibit A-1**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and Investments	\$ 773,960	\$ 6,277,891	\$ 7,051,851
Receivables			
Accounts (Net of Allowance)	33,438	570,844	604,282
Delinquent Taxes	80,500		80,500
Special Assessments	872,100	2,300	874,400
Notes Receivable	461,684		461,684
Due from Other Governments	403,965		403,965
Inventory		287,899	287,899
Restricted: Funded Reserves		187,690	187,690
Restricted: Tenant Security Deposits, Cash		12,897	12,897
Capital Assets			
Land	1,137,800	292,613	1,430,413
Construction in Process	9,782,684		9,782,684
Buildings	12,682,429	2,424,823	15,107,252
Improvements Other than Buildings	19,225,576	88,025	19,313,601
Plant and Equipment		16,123,445	16,123,445
Machinery and Equipment	1,960,214	637,628	2,597,842
Less: accumulated depreciation	(6,735,612)	(8,741,998)	(15,477,610)
Total Capital Assets, Net of Depreciation	<u>38,053,091</u>	<u>10,824,536</u>	<u>48,877,627</u>
<b>TOTAL ASSETS</b>	<u>40,678,738</u>	<u>18,164,057</u>	<u>58,842,795</u>
<b>LIABILITIES</b>			
Accounts Payable	50,888	309,256	360,144
Accrued Payroll Expenses	497		497
Due to Other Governments		52,671	52,671
Consumer Deposits		34,223	34,223
Accrued Interest Payable		4,548	4,548
Noncurrent Liabilities			
Due Within One Year	46,046	99,589	145,635
Due in More than One Year	281,767	2,869,490	3,151,257
<b>TOTAL LIABILITIES</b>	<u>379,198</u>	<u>3,369,777</u>	<u>3,748,975</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	38,053,091	7,938,557	45,991,648
Restricted for:			
Funded Reserves		187,690	187,690
Capital Projects	13,255		13,255
Economic Development	189,082		189,082
Unrestricted	<u>2,044,112</u>	<u>6,668,033</u>	<u>8,712,145</u>
<b>TOTAL NET POSITION</b>	<u>\$ 40,299,540</u>	<u>\$ 14,794,280</u>	<u>\$ 55,093,820</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Exhibit A-2**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 464,755	\$ 83,609	\$ 13,989	\$	\$ (367,157)	\$	\$ (367,157)
Public Safety	1,040,721	76,140	67,878		(896,703)		(896,703)
Public Works	948,018	26,911		673,207	(247,900)		(247,900)
Culture and Recreation	744,128	13,310	10,049		(720,769)		(720,769)
Economic Development	317,824	68,837	25,000		(223,987)		(223,987)
Airport	118,942	98,288	495,802		475,148		475,148
Interest on Long-term Debt	10,003				(10,003)		(10,003)
<b>Total Governmental Activities</b>	<b>3,644,391</b>	<b>367,095</b>	<b>612,718</b>	<b>673,207</b>	<b>(1,991,371)</b>		<b>(1,991,371)</b>
<b>Business-type Activities:</b>							
Municipal Liquor Store	1,512,522	1,775,710				263,188	263,188
Water	546,249	383,724				(162,525)	(162,525)
Electric	3,365,370	4,029,627				664,257	664,257
Sewer Service	437,421	344,319				(93,102)	(93,102)
Roseau Court Townhomes	183,417	177,500				(5,917)	(5,917)
Garbage	363,112	391,570				28,458	28,458
<b>Total Business-type Activities</b>	<b>6,408,091</b>	<b>7,102,450</b>				<b>694,359</b>	<b>694,359</b>
<b>Total Government</b>	<b>\$ 10,052,482</b>	<b>\$ 7,469,545</b>	<b>\$ 612,718</b>	<b>\$ 673,207</b>	<b>(1,991,371)</b>	<b>694,359</b>	<b>(1,297,012)</b>
		<b>General Revenues:</b>					
		Property Taxes			1,103,263	7,215	1,110,478
		Hotel / Motel Taxes			53,218		53,218
		Franchise Fee			30,004		30,004
		Unrestricted State Aid			574,002		574,002
		Unrestricted Investment Earnings			79,477	1,320	80,797
		Other General Revenue			100,146		100,146
		Transfers			936,071	(936,071)	
		<b>Total General Revenues and Transfers</b>			<b>2,876,181</b>	<b>(927,536)</b>	<b>1,948,645</b>
		Change in Net Position			884,810	(233,177)	651,633
		Net Position - January 1			39,414,730	15,027,457	54,442,187
		Net Position - December 31			<b>\$ 40,299,540</b>	<b>\$ 14,794,280</b>	<b>\$ 55,093,820</b>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

**Exhibit A-3**

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and Investments	\$ 71,862	\$ 505,371	\$	\$ 196,727	\$ 773,960
Receivables					
Accounts	25,485			7,953	33,438
Tax Receivable - Delinquent	80,500				80,500
Special Assessments					
Delinquent	37,600				37,600
Deferred	834,500				834,500
Notes Receivable		579,684			579,684
Due from Other Funds	350,459				350,459
Due from Other Governments	46,834		357,131		403,965
<b>TOTAL ASSETS</b>	<u>\$ 1,447,240</u>	<u>\$ 1,085,055</u>	<u>\$ 357,131</u>	<u>\$ 204,680</u>	<u>\$ 3,094,106</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 45,650	\$	\$ 1,738	\$ 3,500	\$ 50,888
Accrued Payroll Expenses	497				497
Due to Other Funds			342,138	8,321	350,459
Deferred Revenue	952,600	579,684			1,532,284
<b>Total Liabilities</b>	<u>998,747</u>	<u>579,684</u>	<u>343,876</u>	<u>11,821</u>	<u>1,934,128</u>
<b>FUND BALANCES</b>					
Restricted for :					
Capital Projects			13,255		13,255
Economic Development				189,082	189,082
Committed for:					
Economic Development		505,371			505,371
Birding Trail				3,777	3,777
Unassigned	448,493				448,493
<b>Total Fund Balances</b>	<u>448,493</u>	<u>505,371</u>	<u>13,255</u>	<u>192,859</u>	<u>1,159,978</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,447,240</u>	<u>\$ 1,085,055</u>	<u>\$ 357,131</u>	<u>\$ 204,680</u>	<u>\$ 3,094,106</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA  
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 DECEMBER 31, 2012**

**Exhibit A-4**

Total fund balances - governmental funds	\$ 1,159,978
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	44,788,703
Less: accumulated depreciation	(6,735,612)
Long-term liabilities used in governmental activities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Other Long-Term Obligations	(185,413)
Compensated absences payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.	(142,400)
An allowance has been set up for notes receivable in the government-wide financial statements.	(118,000)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>1,532,284</u>
Net position - governmental activities	<u><u>\$ 40,299,540</u></u>

See Notes to the Financial Statements



**CITY OF ROSEAU, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Exhibit A-5**

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Property Taxes	\$ 1,043,547	\$	\$	\$ 53,215	\$ 1,096,762
Hotel / Motel Tax				53,218	53,218
Franchise Fee	30,004				30,004
Special Assessments	129,892				129,892
Licenses and Permits	39,042				39,042
Intergovernmental					
Federal	429,085				429,085
State	732,815		617,415	2,203	1,352,433
Charges for Services	234,575				234,575
Fines and Forfeitures	14,775				14,775
Interest on Investments	40,867	1,109			41,976
Miscellaneous	112,636	138,572	9,949	10,049	271,206
Total Revenues	<u>2,807,238</u>	<u>139,681</u>	<u>627,364</u>	<u>118,685</u>	<u>3,692,968</u>
<b>EXPENDITURES</b>					
Current					
General Government	424,063				424,063
Public Safety	938,318				938,318
Public Works	371,219				371,219
Culture and Recreation	418,124			8,613	426,737
Economic Development	20,637	59,734		108,070	188,441
Airport	96,691				96,691
Debt Service					
Principal	40,626	44,563			85,189
Interest	1,727	9,169			10,896

cont.

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Exhibit A-5**

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
EXPENDITURES - Continued					
Capital Outlay					
Public Works	854,004		624,773		1,478,777
Culture and Recreation	52,871				52,871
Economic Development	9,254				9,254
Airport	553,092				553,092
Total Expenditures	<u>3,780,626</u>	<u>113,466</u>	<u>624,773</u>	<u>116,683</u>	<u>4,635,548</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(973,388)</u>	<u>26,215</u>	<u>2,591</u>	<u>2,002</u>	<u>(942,580)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	936,071	30,000			966,071
Transfers Out	(30,000)				(30,000)
Total Other Financing Sources (Uses)	<u>906,071</u>	<u>30,000</u>			<u>936,071</u>
NET CHANGE IN FUND BALANCES	(67,317)	56,215	2,591	2,002	(6,509)
FUND BALANCE, JANUARY 1	<u>515,810</u>	<u>449,156</u>	<u>10,664</u>	<u>190,857</u>	<u>1,166,487</u>
FUND BALANCE, DECEMBER 31	<u>\$ 448,493</u>	<u>\$ 505,371</u>	<u>\$ 13,255</u>	<u>\$ 192,859</u>	<u>\$ 1,159,978</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2012**

**Exhibit A-6**

Total net change in fund balances - governmental funds.	\$ (6,509)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	2,104,516
Depreciation expense	(1,075,637)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	85,189
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. Also, governmental funds report the effect of issuance costs and discounts when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	891
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(96,340)
An allowance has been set up for notes receivable in the government-wide financial statements.	(118,000)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	<u>(9,300)</u>
Change in net position - governmental activities	<u>\$ 884,810</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2012**

**Exhibit A-7**

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash and Investments	\$ 724,219	\$ 290,866	\$ 4,319,801	\$ 350,361	\$ 48,704	\$ 543,940	\$ 6,277,891
Accounts Receivable (Net Allowance)	1,442	27,386	466,555	31,187	2,600	41,674	570,844
Special Assessments Receivable		2,300					2,300
Inventory	167,748		120,151				287,899
Total Current Assets	<u>893,409</u>	<u>320,552</u>	<u>4,906,507</u>	<u>381,548</u>	<u>51,304</u>	<u>585,614</u>	<u>7,138,934</u>
<b>NONCURRENT ASSETS</b>							
Restricted: Funded Reserves					187,690		187,690
Restricted: Tenant Security Deposits, Cash					12,897		12,897
Capital Assets							
Land	20,000	16,250	61,885	119,478	75,000		292,613
Improvements Other than Buildings					88,025		88,025
Buildings					2,424,823		2,424,823
Plant and Equipment		6,487,348	2,698,574	6,937,523			16,123,445
Machinery and Equipment	290,462				49,373	297,793	637,628
Less: accumulated depreciation	(233,377)	(2,887,565)	(2,303,769)	(2,490,711)	(623,796)	(202,780)	(8,741,998)
Total Capital Assets	<u>77,085</u>	<u>3,616,033</u>	<u>456,690</u>	<u>4,566,290</u>	<u>2,013,425</u>	<u>95,013</u>	<u>10,824,536</u>
Total Noncurrent Assets	<u>77,085</u>	<u>3,616,033</u>	<u>456,690</u>	<u>4,566,290</u>	<u>2,214,012</u>	<u>95,013</u>	<u>11,025,123</u>
Total Assets	<u>970,494</u>	<u>3,936,585</u>	<u>5,363,197</u>	<u>4,947,838</u>	<u>2,265,316</u>	<u>680,627</u>	<u>18,164,057</u>

cont.

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA**  
**STATEMENT OF NET POSITION - Continued**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2012**

Exhibit A-7

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Accounts Payable	1,212	13,612	279,939	1,448	3,280	9,765	309,256
Due to Other Governments	16,193	604	27,839			8,035	52,671
Consumer Deposits			21,825		12,398		34,223
Interest Payable				2,704	1,844		4,548
Current Portion - Long Term Liabilities	5,375	3,375	2,125	74,122	8,067	6,525	99,589
Total Current Liabilities	<u>22,780</u>	<u>17,591</u>	<u>331,728</u>	<u>78,274</u>	<u>25,589</u>	<u>24,325</u>	<u>500,287</u>
<b>NONCURRENT LIABILITIES</b>							
Bonds Payable				292,164			292,164
Loans Payable					2,593,815		2,593,815
Compensated Absences	21,500	13,500	8,500	13,500		26,100	83,100
Less: Current Portion of Long Term Liabilities	(5,375)	(3,375)	(2,125)	(74,122)	(8,067)	(6,525)	(99,589)
Total Noncurrent Liabilities	<u>16,125</u>	<u>10,125</u>	<u>6,375</u>	<u>231,542</u>	<u>2,585,748</u>	<u>19,575</u>	<u>2,869,490</u>
Total Liabilities	<u>38,905</u>	<u>27,716</u>	<u>338,103</u>	<u>309,816</u>	<u>2,611,337</u>	<u>43,900</u>	<u>3,369,777</u>
<b>NET POSITION</b>							
Net Investment in Capital Assets	77,085	3,616,033	456,690	4,274,126	(580,390)	95,013	7,938,557
Restricted for Funded Reserves					187,690		187,690
Unrestricted	854,504	292,836	4,568,404	363,896	46,679	541,714	6,668,033
Total Net Position	<u>\$ 931,589</u>	<u>\$ 3,908,869</u>	<u>\$ 5,025,094</u>	<u>\$ 4,638,022</u>	<u>\$ (346,021)</u>	<u>\$ 636,727</u>	<u>\$ 14,794,280</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Exhibit A-8

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
<b>OPERATING REVENUES</b>							
Sales	\$ 1,774,921	\$	\$	\$	\$	\$	\$ 1,774,921
Cost of Sales	1,257,761						1,257,761
Gross Profit	517,160						517,160
Charges for Services		381,474	3,945,216	341,261	177,500	387,750	5,233,201
Other Services		2,187	84,411	3,058		3,820	93,476
Total Operating Revenues	517,160	383,661	4,029,627	344,319	177,500	391,570	5,843,837
<b>OPERATING EXPENSES</b>							
Production Expense		112,179	3,050,358				3,162,537
Distribution Expense		19,901	87,039				106,940
General Expense	246,448	100,478	156,148	175,827	97,994	336,975	1,113,870
Depreciation	8,313	312,558	71,825	252,125	65,337	26,137	736,295
Total Operating Expenses	254,761	545,116	3,365,370	427,952	163,331	363,112	5,119,642
Operating Income (Loss)	262,399	(161,455)	664,257	(83,633)	14,169	28,458	724,195
<b>NONOPERATING REVENUE (EXPENSE)</b>							
Property Taxes				7,215			7,215
Special Assessments		63					63
Interest on Investments					1,320		1,320
Other Income	789						789
Interest Expense		(1,133)		(9,469)	(20,086)		(30,688)
Total NonOperating Revenue (Expense)	789	(1,070)		(2,254)	(18,766)		(21,301)
Net Income (Loss) before Transfers	263,188	(162,525)	664,257	(85,887)	(4,597)	28,458	702,894
<b>TRANSFERS OUT</b>	(200,000)		(200,000)	(500,000)	(36,071)		(936,071)
Change in Net Position	63,188	(162,525)	464,257	(585,887)	(40,668)	28,458	(233,177)
<b>TOTAL NET POSITION, JANUARY 1</b>	868,401	4,071,394	4,560,837	5,223,909	(305,353)	608,269	15,027,457
<b>TOTAL NET POSITION, DECEMBER 31</b>	\$ 931,589	\$ 3,908,869	\$ 5,025,094	\$ 4,638,022	\$ (346,021)	\$ 636,727	\$ 14,794,280

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Exhibit A-9**

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from Customers and Users	\$ 1,774,935	\$ 387,047	\$ 3,960,744	\$ 347,402	\$ 176,601	\$ 393,472	\$ 7,040,201
Payments to Suppliers	(1,303,393)	(105,645)	(3,234,378)	(57,762)	(97,925)	(157,044)	(4,956,147)
Payments to Employees	(185,251)	(120,601)	(67,196)	(120,787)		(177,071)	(670,906)
Net Cash Provided by Operating Activities	<u>286,291</u>	<u>160,801</u>	<u>659,170</u>	<u>168,853</u>	<u>78,676</u>	<u>59,357</u>	<u>1,413,148</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Nonoperating Revenue	789			7,215			8,004
Transfers to Other Funds	(200,000)		(200,000)	(500,000)	(36,071)		(936,071)
Net Cash Used by Noncapital Financing Activities	<u>(199,211)</u>		<u>(200,000)</u>	<u>(492,785)</u>	<u>(36,071)</u>		<u>(928,067)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Special Assessment Revenue		364					364
Payment of Long-Term Debt		(105,000)		(68,707)	(7,619)		(181,326)
Interest on Long-Term Debt		(1,943)		(10,151)	(20,086)		(32,180)
Acquisition and Construction of Capital Assets		(195,965)		(172,855)			(368,820)
Net Cash Used by Capital and Related Financing Activities		<u>(302,544)</u>		<u>(251,713)</u>	<u>(27,705)</u>		<u>(581,962)</u>

cont.

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA**  
**STATEMENT OF CASH FLOWS - Continued**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**Exhibit A-9**

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
CASH FLOWS FROM INVESTING ACTIVITIES							
Deposits into Reserve Accounts					(11,993)		(11,993)
Interest Earnings					1,320		1,320
Net Cash Used by Investing Activities					(10,673)		(10,673)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	87,080	(141,743)	459,170	(575,645)	4,227	59,357	(107,554)
CASH AND CASH EQUIVALENTS, JANUARY 1	637,139	432,609	3,860,631	926,006	57,374	484,583	6,398,342
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 724,219</u>	<u>\$ 290,866</u>	<u>\$ 4,319,801</u>	<u>\$ 350,361</u>	<u>\$ 61,601</u>	<u>\$ 543,940</u>	<u>\$ 6,290,788</u>
CASH FLOWS FROM OPERATING ACTIVITIES							
Operating Income (Loss)	\$ 262,399	\$ (161,455)	\$ 664,257	\$ (83,633)	\$ 14,169	\$ 28,458	\$ 724,195
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Depreciation	8,313	312,558	71,825	252,125	65,337	26,137	736,295
Bad Debt Expense					1,774		1,774
Change in:							
Accounts Receivable	14	3,387	(68,883)	3,084	(3,190)	1,902	(63,686)
Inventory	11,288		(6,270)				5,018
Accounts Payable	134	9,295	(9,524)	177	69	1,520	1,671
Due to Other Governments	1,243	(84)	11,240			(160)	12,239
Other Current Liabilities			(3,375)		517		(2,858)
Compensated Absences	2,900	(2,900)	(100)	(2,900)		1,500	(1,500)
Total Adjustments	<u>23,892</u>	<u>322,256</u>	<u>(5,087)</u>	<u>252,486</u>	<u>64,507</u>	<u>30,899</u>	<u>688,953</u>
Net Cash Provided by Operating Activities	<u>\$ 286,291</u>	<u>\$ 160,801</u>	<u>\$ 659,170</u>	<u>\$ 168,853</u>	<u>\$ 78,676</u>	<u>\$ 59,357</u>	<u>\$ 1,413,148</u>

See Notes to the Financial Statements



**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification). The City's significant accounting policies are described below.

**A. Financial Reporting Entity**

For financial reporting purposes, the City of Roseau's primary government includes all funds, elected officials, departments, boards, commissions, and authorities that make up the City's legal entity. The City's reporting entity also is comprised of its component units, legally separate organizations for which the City's elected officials are financially accountable.

**DISCRETELY PRESENTED COMPONENT UNITS** – None.

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

The government-wide financial statements (e.g., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants which 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 proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

Property taxes, sales taxes, franchise tax, 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

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revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The *community and economic development fund* accounts, primarily, for monies loaned at low interest rates to individuals or businesses, specifically for the purpose of economic development.

The *capital projects fund* accounts for financial resources to be used for acquisition or construction of major capital facilities.

The government reports the following major proprietary funds:

The *municipal liquor store fund* is used to account for revenues and expenses to operate the municipal liquor store.

The *water fund* is used to account for revenues and expenses to operate the water utility.

The *electric fund* is used to account for revenues and expenses to operate the electric utilities.

The *sewer service fund* is used to account for revenues and expenses to operate the sewer facility.

The *Roseau Court Townhome fund* is used to account for revenues and expenses to operate the townhomes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. 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 government's policy to use restricted resources first and then unrestricted resources as they are needed.

#### **D. Budgets**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund and the special revenue funds. All annual appropriations lapse at fiscal year end.

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**E. Cash and Cash Equivalents**

Cash balances from all funds are combined and invested to the extent available in authorized investments.

The City considers cash equivalents to be certificates of deposits, money market funds, and other highly liquid investments with original maturities of three months or less. They are carried at cost.

**F. Accounts Receivable**

Receivables are carried at invoice amount less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. The allowance for uncollectible accounts receivable was \$10,000. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 11 days. A late fee is charged on receivables that are outstanding for more than 11 days, and the late charge is 10%.

**G. Property Taxes**

Property tax levies are set by the city council in December each year and are certified to the county for collection the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1.

Property taxes are payable in equal installments by property owners to the county as follows: personal property - February 28 and June 30; and real property - May 15 and October 15. The county remits the collections to the City and other taxing districts three times a year, in April, July and December.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable. The receivable is fully offset by deferred revenue as it is not available to finance current expenditures.

Taxes payable on homestead property (as defined by Minnesota Statutes) are partially reduced by a market value credit. This credit is paid to the City by the state in lieu of taxes levied against homestead property. The state remits this credit in two equal installments in July and December each year.

**H. Special Assessments Receivable**

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

Special assessments receivable includes the following components:

Delinquent - amounts billed to property owners but not paid.

Deferred - assessment installments that will be billed to property owners in future years.

Special assessments receivables not expected to be collected within one year are \$752,000.

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**I. Short-term Interfund Receivables/Payables**

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

**J. Inventories**

The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in proprietary funds when used. Proprietary fund inventories for the electric fund and the municipal liquor store fund are presented at lower of cost or market.

**K. Capital Assets**

Capital assets, which include property, 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 government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The government reports infrastructure assets on a network 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. General infrastructure assets acquired prior to January 1, 2004, are not reported in the basic financial statements.

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

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 depreciated using the straight line method over the following estimated useful lives:

Buildings	40 years
Improvements other than Buildings	20-30 years
Machinery and Equipment	5-20 years
Plant and Equipment	5-60 years

**L. Sales Tax**

Sales taxes collected from customers and remitted to taxing authorities are excluded from revenues and cost of sales, respectively.

**M. Compensated Absences**

Vacation leave is recognized as an expenditure or expense when earned. Full-time City employees are granted from 7 to 28 days of vacation per year depending upon their years of service. Vacation that is earned as of December 31, 2012, and is expected to be taken by December 31, 2013, is considered a current liability and is accrued in the December 31, 2012 financial statements. Unused vacation leave can be accrued up to twice the employees annual earned vacation amount and can be carried over to the succeeding year, however once the maximum is reached, no vacation time will accrue until vacation time is used. No more than the maximum can ever be accrued.

Compensatory time is earned by full-time City employees working hours in excess of their regularly scheduled shift or a forty-hour week. Compensatory time is accrued as a current liability as it is to be used within one year.

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All full-time City employees earn sick leave at the rate of one day per month to a maximum of 120 days.

Any full-time employee who has rendered at least five years of service and is in good standing is entitled upon retirement or termination, a portion of their accumulated sick leave balance. Due to the uncertainty as to when employees will terminate or retire, and payment of sick leave benefits will be required, the liability is considered to be long-term.

**N. Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**O. Fund Equity**

The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

*Nonspendable* - consists of amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

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

*Committed* - consists of amounts constrained to specific purposes by the government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

*Assigned* - consists of amounts a government intends to use for a specific purpose. These constraints are established by the Council and/or management. The Council delegates the power to assign fund balances to the City Clerk.

*Unassigned* – consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The City will strive to maintain an unrestricted general fund balance of 35% of next year's expenditures.

**P. Net Position**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital asset, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by

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liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**Q. Use of Estimates**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

**NOTE 2. DEFICIT NET POSITION**

The Roseau Court Townhomes had a deficit net position of \$346,021 as of December 31, 2012. The deficit is expected to be eliminated upon the forgiveness of \$2,246,824 of mortgage payable in 2023.

**NOTE 3. DEPOSITS AND INVESTMENTS**

The City maintains a cash account at its depository bank. The City considers certificates of deposit to be cash.

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

Credit Risk – The City may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member 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.
- (g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

As of December 31, 2012, the City held no investments.

Custodial Credit Risk – Deposits – The City does not have a formal custodial credit risk policy. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. 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 or bonds. As of December 31, 2012, the City was not exposed to custodial credit risk.

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**NOTE 4. NOTES RECEIVABLE**

At December 31, 2012, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$579,684. The promissory notes have various maturity dates and interest rates. The provision for uncollectible notes on the statement of net position was \$118,000.

**NOTE 5. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Governmental Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,137,800	\$	\$	\$ 1,137,800
Construction In Process	9,137,702	644,982		9,782,684
Total Capital Assets, Not Being Depreciated	<u>10,275,502</u>	<u>644,982</u>		<u>10,920,484</u>
Capital Assets, Being Depreciated:				
Buildings	12,663,924	18,505		12,682,429
Improvements Other Than Buildings	17,784,547	1,441,029		19,225,576
Machinery and Equipment	1,960,214			1,960,214
Total Capital Assets, Being Depreciated	<u>32,408,685</u>	<u>1,459,534</u>		<u>33,868,219</u>
Less: Accumulated Depreciation For:				
Buildings	1,839,833	321,470		2,161,303
Improvements Other Than Buildings	2,893,373	615,796		3,509,169
Machinery and Equipment	926,769	138,371		1,065,140
Total Accumulated Depreciation	<u>5,659,975</u>	<u>1,075,637</u>		<u>6,735,612</u>
Total Capital Assets, Being Depreciated, Net	<u>26,748,710</u>	<u>383,897</u>		<u>27,132,607</u>
Governmental Activities Capital Assets, Net	<u>\$ 37,024,212</u>	<u>\$ 1,028,879</u>	<u>\$</u>	<u>\$ 38,053,091</u>
<b><u>Business-type Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 292,613	\$	\$	\$ 292,613
Capital Assets, Being Depreciated:				
Improvements Other Than Buildings	88,025			88,025
Buildings	2,424,823			2,424,823
Plant and Equipment	15,754,625	368,820		16,123,445
Machinery and Equipment	637,628			637,628
Total Capital Assets, Being Depreciated	<u>18,905,101</u>	<u>368,820</u>		<u>19,273,921</u>
Less: Accumulated Depreciation For:				
Improvements Other Than Buildings	33,010	4,401		37,411
Buildings	477,387	60,621		538,008
Plant and Equipment	7,045,537	636,508		7,682,045
Machinery and Equipment	449,769	34,765		484,534
Total Accumulated Depreciation	<u>8,005,703</u>	<u>736,295</u>		<u>8,741,998</u>
Total Capital Assets, Being Depreciated, Net	<u>10,899,398</u>	<u>(367,475)</u>		<u>10,531,923</u>
Business-type Activities Capital Assets, Net	<u>\$ 11,192,011</u>	<u>\$ (367,475)</u>	<u>\$</u>	<u>\$ 10,824,536</u>

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

Governmental Activities:	
General Government	\$ 41,393
Public Safety	96,803
Public Works, including depreciation of general infrastructure assets	594,408
Culture and Recreation	281,224
Economic Development	5,625
Airport	56,184
Total Depreciation Expenses - Governmental Activities	<u>\$ 1,075,637</u>
Business-type Activities:	
Municipal Liquor Store	\$ 8,313
Water	312,558
Electric	71,825
Sewer Service	252,125
Roseau Court Townhomes	65,337
Garbage Collections	26,137
Total Depreciation Expense - Business-type Activities	<u>\$ 736,295</u>

**NOTE 6. CONTINGENT LIABILITIES**

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2012, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

**NOTE 7. 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 both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$1,762,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The general obligations issued for General Government are payable from the debt service funds primarily through special assessments and property taxes levied and collected. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Business-type Activities	2.95 - 2.99%	2013/17	\$ 292,164



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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2013	\$ 70,747	\$ 8,111
2014	70,201	6,002
2015	59,195	4,027
2016	60,954	2,268
2017	31,067	458
	<u>\$ 292,164</u>	<u>\$ 20,866</u>

**Loans Payable.** The City has entered into various loan agreements.

The City has the following loans:

Purpose	Interest Rates	Maturity Dates	Amount
Governmental Activities	5.0 - 5.2%	2013/16	\$ 185,413
Business-type Activities	0.0 - 5.7%	2013/35	2,593,815

Lender	Interest Rates	Maturity Dates	Amount
Bank	5.25%	2013/16	\$ 185,413
MN Housing Finance Agency	5.72%	2013/35	346,991
MN Housing Finance Agency (*)		2023	2,246,824
			<u>\$ 2,779,228</u>

\* The debt service requirements to maturity are not disclosed because the loan will be forgiven after 20 years. There is no interest or principal payments due on an annual basis.

Annual debt service requirements to maturity for loans payable are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 10,446	\$ 5,495	\$ 8,067	\$ 19,639
2014	10,768	5,172	8,541	19,165
2015	11,100	4,840	9,042	18,663
2016	153,099	2,299	9,573	18,132
2017			10,135	17,570
2018-2022			60,334	78,193
2023-2027			80,256	58,271
2028-2032			106,755	31,772
2033-2035			54,288	3,432
	<u>\$ 185,413</u>	<u>\$ 17,806</u>	<u>\$ 346,991</u>	<u>\$ 264,837</u>

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**Changes in Long-Term Liabilities.** Long-term liability activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Within One Year</u>
<b><u>Governmental Activities</u></b>					
Other Long-term Obligations					
Lease Payable	\$ 40,624	\$	\$ 40,624	\$	\$
Loans Payable	<u>229,976</u>	<u></u>	<u>44,563</u>	<u>185,413</u>	<u>10,446</u>
Total Other Long-term Obligations	<u>270,600</u>	<u></u>	<u>85,187</u>	<u>185,413</u>	<u>10,446</u>
Compensated Absences	<u>133,100</u>	<u>89,643</u>	<u>80,343</u>	<u>142,400</u>	<u>35,600</u>
Governmental Activity Long-term Liabilities	<u>\$ 403,700</u>	<u>\$ 89,643</u>	<u>\$ 165,530</u>	<u>\$ 327,813</u>	<u>\$ 46,046</u>
<b><u>Business-type Activities</u></b>					
Bonds Payable					
General Obligation Bonds	\$ 360,871	\$	\$ 68,707	\$ 292,164	\$ 70,747
Revenue Bonds	<u>105,000</u>	<u></u>	<u>105,000</u>	<u></u>	<u></u>
Total Bonds Payable	<u>465,871</u>	<u></u>	<u>173,707</u>	<u>292,164</u>	<u>70,747</u>
Other Long-term Obligations					
Loans Payable	<u>2,601,434</u>	<u></u>	<u>7,619</u>	<u>2,593,815</u>	<u>8,067</u>
Total Other Long-term Obligations	<u>2,601,434</u>	<u></u>	<u>7,619</u>	<u>2,593,815</u>	<u>8,067</u>
Compensated Absences	<u>84,600</u>	<u>52,388</u>	<u>53,888</u>	<u>83,100</u>	<u>20,775</u>
Business-type Activity Long-term Liabilities	<u>\$ 3,151,905</u>	<u>\$ 52,388</u>	<u>\$ 235,214</u>	<u>\$ 2,969,079</u>	<u>\$ 99,589</u>

In the governmental activities, compensated absences are generally liquidated by the general fund.

**NOTE 8. DEFINED BENEFIT PENSION PLANS**

Substantially all employees of the City are required by state law to belong to the pension plans administered by the Public Employees Retirement Association (PERA), which is administered on a statewide basis.

**A. Public Employees Retirement Association**

Plan Description

All full-time and certain part-time employees of the City of Roseau 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 state statute, and vest after three 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 services.

**CITY OF ROSEAU, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2012**

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 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.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the 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. 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.

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](http://www.mnpera.org) or by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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 City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. The City of Roseau is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$67,183, \$66,898, and \$65,611, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$51,467, \$50,199, and \$51,750, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**NOTE 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of December 31, 2012, is as follows:

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	Capital Projects	\$ 342,138
General	Nonmajor Governmental	8,321
		<u>\$ 350,459</u>

The amounts payable are to cover cash deficits on December 31, 2012.

**CITY OF ROSEAU, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2012**

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	Electric	\$ 200,000
General	Municipal Liquor Store	200,000
General	Sewer Service	500,000
General	Roseau Court Townhomes	36,071
Community and Economic Development	General	30,000
		<u>\$ 966,071</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds.

**NOTE 10. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters. The City participates with other cities in the League of Minnesota Cities Insurance Trust (LMCIT) to provide its general liability and property and to provide workers' compensation for its employees.

The City's municipal general liability policy is on a claims-made basis with an each occurrence deductible of \$500 and provides the annual Minnesota Statutory limit of \$1,500,000 per occurrence in liability coverage. For the year ending December 31, 2012, premiums of Liability coverage totaled \$25,366, Mobile Property coverage totaled \$48,036, Auto coverage totaled \$10,342 and Liquor liability coverage totaled \$2,214. The City also carries a municipal excess liability policy in the amount of \$1,000,000. The premium for this coverage for the year ending December 31, 2012 totaled \$7,717.

The City also provides a blanket dishonesty policy that includes a faithful performance bond on all employees up to \$250,000. There has been no significant reduction in insurance coverage from the year 2011. The City may receive a dividend each year from the League of Minnesota Cities. The dividend received for Workman's Comp in 2012 was \$11,218, and the Property and Casualty dividend received was \$41,931. The City has elected to participate in the Trust's premium refund option whereby a share of excess surplus funds, if any, are returned to the City according to the City's loss experience.

Total liability claims paid in 2012 and 2011 were \$1,000 and \$10,831, respectively. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the City's insurance coverage in 2012.

The City also participates in the LMCIT for its worker's compensation insurance program that is administered by a third party, Berkley Administrators. The cost for the worker's compensation for the year ending December 31, 2012, was \$46,634.

**NOTE 11. SIGNIFICANT CUSTOMER**

The City has a significant customer, which represents about 19% of the water utility billings.

**NOTE 12. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Roseau Court Townhomes' sole asset is a 24-unit townhome project. Roseau Court Townhomes' operations are concentrated in the multifamily real estate market. In addition, Roseau Court Townhomes operates in a heavily regulated environment. The operations of Roseau Court Townhomes are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, MHFA. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by MHFA. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**NOTE 13. NEW PRONOUNCEMENTS**

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement—Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

Management has not yet determined the effect these Statements will have on the City's financial statements.

**CITY OF ROSEAU, MINNESOTA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>			
Property Taxes	\$ 1,042,242	\$ 1,043,547	\$ 1,305
Franchise Fee	45,000	30,004	(14,996)
Special Assessments	70,900	129,892	58,992
Licenses and Permits	24,290	39,042	14,752
<b>Intergovernmental</b>			
Federal	597,929	429,085	(168,844)
State			
Local Government Aid	569,076	569,076	
Market Value Credit		106	106
Police Aid	39,114	41,160	2,046
Fire Aid	23,037	24,515	1,478
PERA Rate Increase Aid	4,820	4,820	
Aviation Maintenance Aid	26,251	68,138	41,887
Other State Grants	51,696	25,000	(26,696)
	<u>1,311,923</u>	<u>1,161,900</u>	<u>(150,023)</u>
<b>Charges for Services</b>			
General Government	41,985	49,153	7,168
Public Safety	63,423	61,582	(1,841)
Culture and Recreation	64,000	60,138	(3,862)
Airport	35,485	63,702	28,217
	<u>204,893</u>	<u>234,575</u>	<u>29,682</u>
<b>Fines and Forfeitures</b>	14,000	14,775	775
<b>Miscellaneous</b>			
Interest on Investments	30,000	40,867	10,867
Contributions	1,500	12,572	11,072
Property Sales	2,500		(2,500)
Reimbursements	8,500	94,414	85,914
Other Receipts	1,000	5,650	4,650
	<u>43,500</u>	<u>153,503</u>	<u>110,003</u>
<b>Total Revenues</b>	<u>2,756,748</u>	<u>2,807,238</u>	<u>50,490</u>
<b>EXPENDITURES</b>			
<b>General Government</b>			
Mayor and Council	34,641	29,864	4,777
Finance / Administration	74,780	85,393	(10,613)
Independent Auditors	12,500	11,346	1,154
Election	3,100	3,190	(90)
Assessor	15,000	14,683	317
Legal Services	60,350	60,000	350
Planning, Zoning, Economic Development	138,222	124,875	13,347
Municipal Building	61,384	46,129	15,255
Miscellaneous	55,430	48,583	6,847
	<u>455,407</u>	<u>424,063</u>	<u>31,344</u>
			cont.

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND - Continued  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES - Continued			
Public Safety			
Police	617,995	599,022	18,973
Fire	222,903	236,817	(13,914)
Building Inspector	91,492	88,934	2,558
Emergency Services	18,850	13,545	5,305
	<u>951,240</u>	<u>938,318</u>	<u>12,922</u>
Public Works			
Streets and Highways	373,366	327,926	45,440
Snow and Ice Removal	36,110	6,645	29,465
Street Lighting and Signals	43,860	36,648	7,212
Capital Outlay	1,344,989	854,004	490,985
	<u>1,798,325</u>	<u>1,225,223</u>	<u>573,102</u>
Culture and Recreation			
Library and Museum	95,185	86,483	8,702
Parks and Recreation	378,615	331,641	46,974
Capital Outlay - Parks and Recreation	46,500	52,871	(6,371)
	<u>520,300</u>	<u>470,995</u>	<u>49,305</u>
Economic Development			
Current Expenditures	7,910	20,637	(12,727)
Capital Outlay		9,254	(9,254)
	<u>7,910</u>	<u>29,891</u>	<u>(21,981)</u>
Airport			
Current Expenditures	124,572	96,691	27,881
Capital Outlay	685,000	553,092	131,908
	<u>809,572</u>	<u>649,783</u>	<u>159,789</u>
Debt			
Principal	40,626	40,626	
Interest	1,727	1,727	
	<u>42,353</u>	<u>42,353</u>	
Total Expenditures	<u>4,585,107</u>	<u>3,780,626</u>	<u>804,481</u>
REVENUES UNDER EXPENDITURES	<u>(1,828,359)</u>	<u>(973,388)</u>	<u>854,971</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	36,000	936,071	900,071
Transfers Out	(30,000)	(30,000)	
Total Other Financing Sources (Uses)	<u>6,000</u>	<u>906,071</u>	<u>900,071</u>
NET CHANGE IN FUND BALANCE	(1,822,359)	(67,317)	1,755,042
FUND BALANCE, JANUARY 1	<u>515,810</u>	<u>515,810</u>	
FUND BALANCE, DECEMBER 31	<u>\$ (1,306,549)</u>	<u>\$ 448,493</u>	<u>\$ 1,755,042</u>

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
COMMUNITY AND ECONOMIC DEVELOPMENT FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>			
Interest on Investments	\$	\$ 1,109	\$ 1,109
Program Income	15,000	96,039	81,039
Other Receipts		42,533	42,533
	<u>15,000</u>	<u>139,681</u>	<u>124,681</u>
<b>EXPENDITURES</b>			
Economic Development		59,734	(59,734)
Debt			
Principal		44,563	(44,563)
Interest		9,169	(9,169)
		<u>53,732</u>	<u>(53,732)</u>
		<u>113,466</u>	<u>(113,466)</u>
<b>REVENUES OVER EXPENDITURES</b>	<u>15,000</u>	<u>26,215</u>	<u>11,215</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers In		30,000	30,000
		<u>30,000</u>	<u>30,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	15,000	56,215	41,215
<b>FUND BALANCE, JANUARY 1</b>	<u>449,156</u>	<u>449,156</u>	
<b>FUND BALANCE, DECEMBER 31</b>	<u>\$ 464,156</u>	<u>\$ 505,371</u>	<u>\$ 41,215</u>

See Notes to the Required Supplementary Information



**CITY OF ROSEAU, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2012**

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**NOTE 1. LEGAL COMPLIANCE-BUDGETS**

The City is required by state statutes to adopt an annual budget for its general fund. There is no legal restriction on expenditures in excess of appropriations.

Annual budgets are adopted for the general and the special revenue funds. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Formal budgetary policies are not employed for debt service funds and capital projects funds because effective budgetary control is alternatively achieved by bond requirements or by council approval of individual projects and expenditures.

Appropriations are authorized by the city council at the function and activity level within an individual fund, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. The city clerk may transfer budgeted amounts between line items. All unexpended appropriations lapse at year-end. Encumbrances outstanding at year-end expire and are not reported in the financial statements. Any changes in the total budget of each fund must be approved by a majority vote of the city council. No material supplemental appropriations were made during 2012.

**NOTE 2. EXCESS OF ACTUAL EXPENDITURES OVER BUDGET**

The community and economic development fund had \$113,466 of expenditures in excess of budget for the year ended December 31, 2012. A majority of the over expenditures were funded by greater than anticipated revenues.

No remedial action is required for this expense.

**CITY OF ROSEAU, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2012**

**Exhibit B-1**

	<u>Special Revenue</u>			<b>Total Nonmajor Governmental Funds Exhibit A-3</b>
	<u>Lodging Tax</u>	<u>T.I.F.</u>	<u>Pine To Prairie Birding Trail</u>	
<b>ASSETS</b>				
Cash and Investments	\$ 103,916	\$ 89,034	\$ 3,777	\$ 196,727
Accounts Receivable	7,953			7,953
<b>TOTAL ASSETS</b>	<u>\$ 111,869</u>	<u>\$ 89,034</u>	<u>\$ 3,777</u>	<u>\$ 204,680</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to Other Funds	\$ 3,500	\$ 8,321	\$	\$ 3,500
Total Liabilities	<u>3,500</u>	<u>8,321</u>		<u>11,821</u>
<b>Fund Balances</b>				
Restricted for Economic Development	108,369	80,713		189,082
Committed for Birding Trail			3,777	3,777
Total Fund Balances	<u>108,369</u>	<u>80,713</u>	<u>3,777</u>	<u>192,859</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 111,869</u>	<u>\$ 89,034</u>	<u>\$ 3,777</u>	<u>\$ 204,680</u>

**CITY OF ROSEAU, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2012**

**Exhibit B-2**

	<u>Special Revenue</u>			<u>Total Nonmajor Governmental Funds Exhibit A-5</u>
	<u>Lodging Tax</u>	<u>T.I.F.</u>	<u>Pine To Prairie Birding Trail</u>	
REVENUES				
Property Taxes	\$	\$ 53,215	\$	\$ 53,215
Hotel / Motel Tax	53,218			53,218
Intergovernmental - State	2,203			2,203
Miscellaneous				
Contributions			10,049	10,049
Total Revenues	<u>55,421</u>	<u>53,215</u>	<u>10,049</u>	<u>118,685</u>
EXPENDITURES				
Current				
Culture and Recreation			8,613	8,613
Economic Development	48,252	59,818		108,070
Total Expenditures	<u>48,252</u>	<u>59,818</u>	<u>8,613</u>	<u>116,683</u>
NET CHANGE IN FUND BALANCES	7,169	(6,603)	1,436	2,002
FUND BALANCE, JANUARY 1	<u>101,200</u>	<u>87,316</u>	<u>2,341</u>	<u>190,857</u>
FUND BALANCE, DECEMBER 31	<u>\$ 108,369</u>	<u>\$ 80,713</u>	<u>\$ 3,777</u>	<u>\$ 192,859</u>

**CITY OF ROSEAU, MINNESOTA  
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Ending Balance</u>
Governmental Funds						
General	\$ 515,810	\$ 2,807,238	\$ 3,780,626	\$ 936,071	\$ 30,000	\$ 448,493
Special Revenue						
Community and Economic Development	449,156	139,681	113,466	30,000		505,371
Lodging Tax	101,200	55,421	48,252			108,369
T.I.F.	87,316	53,215	59,818			80,713
Pine To Prairie Birding Trail	2,341	10,049	8,613			3,777
Capital Projects	10,664	627,364	624,773			13,255
Total Governmental Funds	<u>1,166,487</u>	<u>3,692,968</u>	<u>4,635,548</u>	<u>966,071</u>	<u>30,000</u>	<u>1,159,978</u>
Proprietary Funds						
Municipal Liquor Store	868,401	1,775,710	1,512,522		200,000	931,589
Water	4,071,394	383,724	546,249			3,908,869
Electric	4,560,837	4,029,627	3,365,370		200,000	5,025,094
Sewer Service	5,223,909	351,534	437,421		500,000	4,638,022
Roseau Court Townhomes	(305,353)	178,820	183,417		36,071	(346,021)
Garbage Collection	608,269	391,570	363,112			636,727
Total Proprietary Funds	<u>15,027,457</u>	<u>7,110,985</u>	<u>6,408,091</u>		<u>936,071</u>	<u>14,794,280</u>
Total Primary Government	<u>\$ 16,193,944</u>	<u>\$ 10,803,953</u>	<u>\$ 11,043,639</u>	<u>\$ 966,071</u>	<u>\$ 966,071</u>	<u>\$ 15,954,258</u>

**CITY OF ROSEAU, MINNESOTA  
SCHEDULE OF INDEBTEDNESS  
DECEMBER 31, 2012**

BOND INDEBTEDNESS	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 1/1/2012	Issued 2012	Retired 2012	Balance 12/31/2012	Principal 2013	Interest 2013
<b>General Obligation Bonds</b>										
1996 PFA	2.95%	11/1/1995	02-01-13/17	950,000	\$ 318,758	\$	\$ 54,229	\$ 264,529	\$ 55,827	\$ 7,395
1995 PFA	2.99%	5/9/1994	02-01-13/14	237,000	42,113		14,478	27,635	14,920	716
Total					<u>360,871</u>		<u>68,707</u>	<u>292,164</u>	<u>70,747</u>	<u>8,111</u>
<b>Revenue Bonds</b>										
2006A Refunding Bonds		2/1/2006		575,000	<u>105,000</u>		<u>105,000</u>			
Total Bonds					<u>465,871</u>		<u>173,707</u>	<u>292,164</u>	<u>70,747</u>	<u>8,111</u>
<b>Loans</b>										
Installment Purchase Contract		10/2/2003		297,125	35,947		35,947			
MHFA Flood EDHC Loan	0.0%	8/13/2003	08-13-2023	1,246,824	1,246,824			1,246,824		
MHFA - POPR Loan	0.0%	8/13/2003	08-13-2023	1,000,000	1,000,000			1,000,000		
Note Payable	5.25%	6/28/2006	06-28-13/16	220,000	194,029		8,616	185,413	10,446	5,495
Mortgage Note	5.72%	8/1/2004	07-01-13/35	396,923	354,610		7,619	346,991	8,067	19,639
Total					<u>2,831,410</u>		<u>52,182</u>	<u>2,779,228</u>	<u>18,513</u>	<u>25,134</u>
<b>Lease-Purchase Agreement</b>										
Lease Purchase		10/1/2008		192,265	40,624		40,624			
Total					<u>40,624</u>		<u>40,624</u>			
Total Indebtedness					<u>\$ 3,337,905</u>	<u>\$</u>	<u>\$ 266,513</u>	<u>\$ 3,071,392</u>	<u>\$ 89,260</u>	<u>\$ 33,245</u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE**

To the Honorable Mayor and  
Members of the City Council  
City of Roseau  
Roseau, 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated June 13, 2013.

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

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

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

**BRADY, MARTZ & ASSOCIATES, P.C.**  
Thief River Falls, Minnesota

June 13, 2013



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**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**

To the Honorable Mayor and  
Members of the City Council  
City of Roseau  
Roseau, 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 13, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, 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 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 deficiency in internal control, described in the accompanying schedule of findings and responses as item 12-1 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

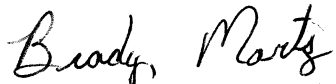
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

## **City's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

## **Purpose of the Report**

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



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

June 13, 2013



**CITY OF ROSEAU, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2012**

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**12-1 FINDING**

Criteria

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare the full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. For the year ended December 31, 2012, the City's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting. The City is aware of this significant deficiency, and obtains our assistance in the preparation of the City's annual financial statements.

Cause

The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The City's management is aware of the deficiency and addresses it by reviewing and approving the adjusting entries and the completed statements prior to distribution to the end users.

Recommendation

For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Corrective Action Plan Prepared by the City

- Correcting Plan:* Management recognizes the significant deficiency and believes it is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.
- Explanation of Disagreement:* There is essentially no disagreement with the finding.
- Official Responsible:* The City council is responsible for carrying out the corrective action plan.
- Completion Date:* The City will review on an annual basis.
- Monitor Plan:* The City council will monitor completion of the corrective action plan.