

**CITY OF ROSEAU
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

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**CITY OF ROSEAU, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2013**

Mayor	Jeff Pelowski
Council	Patrick Novacek
Council	Linda Vatnsdal
Council	Curt Ireland
Council	Don Ross
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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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.

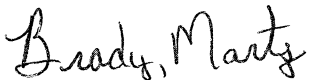
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Roseau's basic 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 April 28, 2014, 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 of Roseau's internal control over financial reporting and compliance.



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

April 28, 2014

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$55,327,408 (net position). Of this amount, \$8,836,370 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 \$248,564, or 7% 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, 2013**

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 \$55,327,408 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 2,407,937	\$ 2,625,647	\$ 7,677,435	\$ 7,339,521	\$ 10,085,372	\$ 9,965,168
Capital Assets	38,403,247	38,053,091	10,477,932	10,824,536	48,881,179	48,877,627
Total Assets	<u>40,811,184</u>	<u>40,678,738</u>	<u>18,155,367</u>	<u>18,164,057</u>	<u>58,966,551</u>	<u>58,842,795</u>
Long-term Liabilities	336,967	327,813	2,862,164	2,969,079	3,199,131	3,296,892
Other Liabilities	55,721	51,385	384,291	400,698	440,012	452,083
Total Liabilities	<u>392,688</u>	<u>379,198</u>	<u>3,246,455</u>	<u>3,369,777</u>	<u>3,639,143</u>	<u>3,748,975</u>
Net Position						
Net Investment in						
Capital Assets	38,403,245	38,053,091	7,670,768	7,938,557	46,074,013	45,991,648
Restricted	213,408	202,337	203,617	187,690	417,025	390,027
Unrestricted	1,801,843	2,044,112	7,034,527	6,668,033	8,836,370	8,712,145
Total Net Position	<u>\$ 40,418,496</u>	<u>\$ 40,299,540</u>	<u>\$ 14,908,912</u>	<u>\$ 14,794,280</u>	<u>\$ 55,327,408</u>	<u>\$ 55,093,820</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, 2013**

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues						
Charges for Services	\$ 347,551	\$ 367,095	\$ 7,290,609	\$ 7,102,450	\$ 7,638,160	\$ 7,469,545
Operating Grants and Contributions	128,325	612,718			128,325	612,718
Capital Grants and Contributions	922,834	673,207			922,834	673,207
General Revenues						
Taxes	1,197,222	1,186,485	7,203	7,215	1,204,425	1,193,700
Unrestricted State Aid	573,977	574,002			573,977	574,002
Unrestricted Investment Earnings	60,092	79,477	1,634	1,320	61,726	80,797
Gain on Sale of Capital Assets						
Other General Revenue	75,726	100,146			75,726	100,146
Total Revenues	3,305,727	3,593,130	7,299,446	7,110,985	10,605,173	10,704,115
Expenses						
General Government	490,209	464,755			490,209	464,755
Public Safety	967,270	1,040,721			967,270	1,040,721
Public Works	1,075,470	948,018			1,075,470	948,018
Culture and Recreation	714,453	744,128			714,453	744,128
Economic Development	363,305	317,824			363,305	317,824
Airport	306,640	118,942			306,640	118,942
Interest on Long-term Debt	5,495	10,003			5,495	10,003
Municipal Liquor Store			1,574,666	1,512,522	1,574,666	1,512,522
Water			525,447	546,249	525,447	546,249
Electric			3,358,079	3,365,370	3,358,079	3,365,370
Sewer Service			428,603	437,421	428,603	437,421
Roseau Court Townhomes			185,531	183,417	185,531	183,417
Garbage			376,417	363,112	376,417	363,112
Total Expenses	3,922,842	3,644,391	6,448,743	6,408,091	10,371,585	10,052,482
Change in Net Position Before Transfers	(617,115)	(51,261)	850,703	702,894	233,588	651,633
Transfers	736,071	936,071	(736,071)	(936,071)		
Change in Net Position	118,956	884,810	114,632	(233,177)	233,588	651,633
Net Position - January 1	40,299,540	39,414,730	14,794,280	15,027,457	55,093,820	54,442,187
Net Position - December 31	\$ 40,418,496	\$ 40,299,540	\$ 14,908,912	\$ 14,794,280	\$ 55,327,408	\$ 55,093,820

Governmental activities. The change in net position before transfers was a decrease of \$617,115. The governmental activities received \$736,071 from the business-type activities during 2013, resulting in an increase in net position of \$118,956.

Business-type activities. The change in net position before transfers was an increase \$850,703. The business-type activities transferred \$736,071 to the governmental activities, resulting in a increase in net position of \$114,632.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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)
	12/31/2013	12/31/2012		
Governmental Funds				
General	\$ 248,564	\$ 448,493	\$ (199,929)	-45%
Community and Economic Development	435,120	505,371	(70,251)	-14%
Capital Projects	10,447	13,255	(2,808)	-21%
Proprietary Funds				
Municipal Liquor Store	1,018,612	931,589	87,023	9%
Water	3,797,999	3,908,869	(110,870)	-3%
Electric	5,239,854	5,025,094	214,760	4%
Sewer Service	4,580,026	4,638,022	(57,996)	-1%
Roseau Court Townhomes	(387,333)	(346,021)	(41,312)	-12%

General Fund Budgetary Highlights

During the year the City did not amend the budget.

The City received revenues under the budgeted amounts of \$7,218 and expended \$447,378 less than budget. The majority of the difference in expenditures pertains to the water and sewer capital projects that were budgeted in the general fund but were expensed in the proprietary funds for 2013.

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, 2013, amounts to \$48,881,179 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, improvements other than buildings, and machinery and equipment.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,137,800	\$ 1,137,800	\$ 292,613	\$ 292,613	\$ 1,430,413	\$ 1,430,413
Construction in Process	10,549,510	9,782,684	32,888		10,582,398	9,782,684
Buildings	10,342,761	10,521,126	1,826,197	1,886,815	12,168,958	12,407,941
Improvements Other Than Buildings	15,517,654	15,716,407	46,212	50,614	15,563,866	15,767,021
Plant and Equipment			8,150,844	8,441,400	8,150,844	8,441,400
Machinery and Equipment	855,522	895,074	129,178	153,094	984,700	1,048,168
Total	\$ 38,403,247	\$ 38,053,091	\$ 10,477,932	\$ 10,824,536	\$ 48,881,179	\$ 48,877,627

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 \$2,982,131 in bonds and other long-term obligations.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$	\$	\$ 221,416	\$ 292,164	\$ 221,416	\$ 292,164
Loans Payable	174,967	185,413	2,585,748	2,593,815	2,760,715	2,779,228
Total	\$ 174,967	\$ 185,413	\$ 2,807,164	\$ 2,885,979	\$ 2,982,131	\$ 3,071,392

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

Economic Factors

The continuing national economic recovery has helped Roseau's area employers in 2013, particularly those connected to Polaris Industries and area agricultural production. Both Polaris and our local agricultural businesses did very well again in 2013, as they did in 2012. The region did not experience any significant layoffs or business closings in 2013. Polaris Industries continued to add market share in many of its product lines requiring the addition of production facilities and labor. However, labor in the Roseau area has been difficult to find and production capacity earmarked for Roseau has shifted to other Polaris production facilities in Iowa and Mexico until more labor in Roseau can be found. In 2013, Dollar General constructed a new retail store and the community expects to see additional retail business development in future.

Improving State and Federal budgets have resulted in additional aids for local government units, including the City of Roseau. While State and Federal operational aides do not constitute a significant portion of the City of Roseau's budget, those aides to help provide additional improvements otherwise unaffordable to the community. The City of Roseau maintains low debt levels, healthy fund balances, and newer infrastructure, placing the community in a good position to maintain existing services without significantly increasing tax or fee levels to local residents and businesses. In addition, 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 keeps our community less dependent on State LGA for critical services. LGA represents less than 10% of the City's total operating 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 local facilities. Polaris continues to design and manufacture new products in Roseau including all snowmobiles and all of the models of ATV's. A number of Polaris' newest market entries have been designed and/or manufactured in Roseau. In 2013 Polaris experienced continued increases in demand for product that resulted in the hiring of additional staff, both in

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

engineering/design and production. However, the overall lack of housing in Roseau has restricted Polaris' ability to continue to grow its employment base in the community.

LifeCare Medical Center continues to invest in new improvements to its facility, purchase new equipment and add new staff. In 2013 LifeCare Medical Center and Altru Clinic made a number of capital improvements to their joint facility. Altru Clinic and LifeCare MC also added three doctors to staff the local Roseau clinic to improve care services for local residents.

As noted above the Roseau housing market for for-sale homes and rental units has become highly constrained and is restricting 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. The vacancy rate within the rental housing market is 0% according to a 2012 housing study which has not improved in 2013. The City of Roseau in cooperation with regional and State officials continue to work diligently to overcome the housing challenges in rural Minnesota to meet the need of rural employers such as Polaris.

Farm commodity prices in 2013 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 2013, the U.S. Army Corps of Engineers had substantially completed $\frac{3}{4}$ of the City's East Diversion permanent flood protection project. 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. Completion of the flood control project is expected in September of 2015.

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

- Significant 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 providing employee pensions and health benefits.
- Increasing costs of on-going operations as a result of unfunded State and Federal mandates.
- Continued 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-fired power 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 the transfer of those profits to the general fund.
- New regulatory changes in the Federal Flood Insurance program dramatically increasing costs of flood insurance on local businesses and homeowners.

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, 2013**

Exhibit A-1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 693,473	\$ 6,670,866	\$ 7,364,339
Receivables			
Accounts (Net of Allowance)	13,054	535,431	548,485
Delinquent Taxes	82,000		82,000
Special Assessments	773,100	2,300	775,400
Notes Receivable (Net of Allowance)	579,514		579,514
Due from Other Governments	266,796		266,796
Inventory		252,738	252,738
Restricted: Funded Reserves		203,617	203,617
Restricted: Tenant Security Deposits, Cash		12,483	12,483
Capital Assets			
Land	1,137,800	292,613	1,430,413
Construction in Process	10,549,510	32,888	10,582,398
Buildings	12,827,453	2,424,823	15,252,276
Improvements Other than Buildings	19,682,526	88,025	19,770,551
Plant and Equipment		16,483,076	16,483,076
Machinery and Equipment	2,046,354	637,628	2,683,982
Less: accumulated depreciation	(7,840,396)	(9,481,121)	(17,321,517)
Total Capital Assets, Net of Depreciation	<u>38,403,247</u>	<u>10,477,932</u>	<u>48,881,179</u>
TOTAL ASSETS	<u>40,811,184</u>	<u>18,155,367</u>	<u>58,966,551</u>
LIABILITIES			
Accounts Payable	51,169	313,274	364,443
Accrued Payroll Expenses	4,552		4,552
Due to Other Governments		33,888	33,888
Consumer Deposits		33,512	33,512
Accrued Interest Payable		3,617	3,617
Noncurrent Liabilities			
Due Within One Year	51,268	92,490	143,758
Due in More than One Year	285,699	2,769,674	3,055,373
TOTAL LIABILITIES	<u>392,688</u>	<u>3,246,455</u>	<u>3,639,143</u>
NET POSITION			
Net Investment in Capital Assets	38,403,245	7,670,768	46,074,013
Restricted for:			
Funded Reserves		203,617	203,617
Capital Projects	10,447		10,447
Economic Development	202,961		202,961
Unrestricted	1,801,843	7,034,527	8,836,370
TOTAL NET POSITION	<u>\$ 40,418,496</u>	<u>\$ 14,908,912</u>	<u>\$ 55,327,408</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Exhibit A-2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General Government	\$ 490,209	\$ 59,527	\$ 215	\$	\$ (430,467)	\$	\$ (430,467)
Public Safety	967,270	78,477	79,199		(809,594)		(809,594)
Public Works	1,075,470	20,344		515,596	(539,530)		(539,530)
Culture and Recreation	714,453	10,777	7,610	319,919	(376,147)		(376,147)
Economic Development	363,305	91,366	15,050		(256,889)		(256,889)
Airport	306,640	87,060	26,251	87,319	(106,010)		(106,010)
Interest on Long-term Debt	5,495				(5,495)		(5,495)
Total Governmental Activities	<u>3,922,842</u>	<u>347,551</u>	<u>128,325</u>	<u>922,834</u>	<u>(2,524,132)</u>		<u>(2,524,132)</u>
Business-type Activities:							
Municipal Liquor Store	1,574,666	1,861,690				287,024	287,024
Water	525,447	414,575				(110,872)	(110,872)
Electric	3,358,079	4,072,840				714,761	714,761
Sewer Service	428,603	363,403				(65,200)	(65,200)
Roseau Court Townhomes	185,531	178,656				(6,875)	(6,875)
Garbage	376,417	399,445				23,028	23,028
Total Business-type Activities	<u>6,448,743</u>	<u>7,290,609</u>				<u>841,866</u>	<u>841,866</u>
Total Government	<u>\$ 10,371,585</u>	<u>\$ 7,638,160</u>	<u>\$ 128,325</u>	<u>\$ 922,834</u>	<u>(2,524,132)</u>	<u>841,866</u>	<u>(1,682,266)</u>
General Revenues:							
Property Taxes					1,102,948	7,203	1,110,151
Hotel / Motel Taxes					55,044		55,044
Franchise Fee					39,230		39,230
Unrestricted State Aid					573,977		573,977
Unrestricted Investment Earnings					60,092	1,634	61,726
Other General Revenue					75,726		75,726
Transfers					736,071	(736,071)	
Total General Revenues and Transfers					<u>2,643,088</u>	<u>(727,234)</u>	<u>1,915,854</u>
Change in Net Position					118,956	114,632	233,588
Net Position - January 1					<u>40,299,540</u>	<u>14,794,280</u>	<u>55,093,820</u>
Net Position - December 31					<u>\$ 40,418,496</u>	<u>\$ 14,908,912</u>	<u>\$ 55,327,408</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

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>
ASSETS					
Cash and Investments	\$ 48,788	\$ 431,270	\$	\$ 213,415	\$ 693,473
Receivables					
Accounts	9,526			3,528	13,054
Tax Receivable - Delinquent	82,000				82,000
Special Assessments					
Delinquent	40,900				40,900
Deferred	732,200				732,200
Notes Receivable		697,514			697,514
Due from Other Funds	14,846				14,846
Due from Other Governments	242,724		16,972		266,796
TOTAL ASSETS	<u>\$ 1,170,984</u>	<u>\$ 1,135,884</u>	<u>\$ 16,972</u>	<u>\$ 216,943</u>	<u>\$ 2,540,783</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 47,862	\$ 3,250	\$	\$ 57	\$ 51,169
Accrued Payroll Expenses	4,552				4,552
Compensated Absence Payable	14,906				14,906
Due to Other Funds			6,525	8,321	14,846
Total Liabilities	<u>67,320</u>	<u>3,250</u>	<u>6,525</u>	<u>8,378</u>	<u>85,473</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Revenue	<u>855,100</u>	<u>697,514</u>			<u>1,552,614</u>
Total Deferred Inflows of Resources	<u>855,100</u>	<u>697,514</u>			<u>1,552,614</u>
FUND BALANCES					
Restricted for :					
Capital Projects			10,447		10,447
Economic Development				202,961	202,961
Committed for:					
Economic Development		435,120			435,120
Birding Trail				5,604	5,604
Unassigned	248,564				248,564
Total Fund Balances	<u>248,564</u>	<u>435,120</u>	<u>10,447</u>	<u>208,565</u>	<u>902,696</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,170,984</u>	<u>\$ 1,135,884</u>	<u>\$ 16,972</u>	<u>\$ 216,943</u>	<u>\$ 2,540,783</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, 2013

Exhibit A-4

Total fund balances - governmental funds	\$ 902,696
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	46,243,643
Less: accumulated depreciation	(7,840,396)
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	(174,967)
Compensated absences payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(147,094)
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>1,552,614</u>
Net position - governmental activities	\$ <u><u>40,418,496</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, 2013

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>
REVENUES					
Property Taxes	\$ 1,048,232	\$	\$	\$ 53,216	\$ 1,101,448
Hotel / Motel Tax				55,044	55,044
Franchise Fee	39,230				39,230
Special Assessments	142,602				142,602
Licenses and Permits	35,740				35,740
Intergovernmental					
Federal	232,745	15,050			247,795
State	766,972		505,314	3,258	1,275,544
Charges for Services	203,145				203,145
Fines and Forfeitures	14,235				14,235
Interest on Investments	25,904	688			26,592
Miscellaneous	75,939	202,437	3,067	7,610	289,053
Total Revenues	<u>2,584,744</u>	<u>218,175</u>	<u>508,381</u>	<u>119,128</u>	<u>3,430,428</u>
EXPENDITURES					
Current					
General Government	446,317				446,317
Public Safety	866,702				866,702
Public Works	464,080				464,080
Culture and Recreation	438,703			5,783	444,486
Economic Development	198,747	277,485		97,639	573,871
Airport	91,930				91,930
Debt Service					
Principal		10,446			10,446
Interest		5,495			5,495

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - Continued
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

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					
General Government	11,211				11,211
Public Safety	15,812				15,812
Public Works	454,567		511,189		965,756
Culture and Recreation	373,374				373,374
Economic Development	12,709				12,709
Airport	141,592				141,592
Total Expenditures	<u>3,515,744</u>	<u>293,426</u>	<u>511,189</u>	<u>103,422</u>	<u>4,423,781</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(931,000)</u>	<u>(75,251)</u>	<u>(2,808)</u>	<u>15,706</u>	<u>(993,353)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	736,071	5,000			741,071
Transfers Out	<u>(5,000)</u>				<u>(5,000)</u>
Total Other Financing Sources (Uses)	<u>731,071</u>	<u>5,000</u>			<u>736,071</u>
NET CHANGE IN FUND BALANCES	(199,929)	(70,251)	(2,808)	15,706	(257,282)
FUND BALANCE, JANUARY 1	<u>448,493</u>	<u>505,371</u>	<u>13,255</u>	<u>192,859</u>	<u>1,159,978</u>
FUND BALANCE, DECEMBER 31	<u>\$ 248,564</u>	<u>\$ 435,120</u>	<u>\$ 10,447</u>	<u>\$ 208,565</u>	<u>\$ 902,696</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, 2013**

Exhibit A-6

Total net change in fund balances - governmental funds.	\$ (257,282)
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	1,472,940
Depreciation expense	(1,122,784)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	10,446
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	20,330
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>(4,694)</u>
Change in net position - governmental activities	<u>\$ 118,956</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013**

Exhibit A-7

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
ASSETS							
CURRENT ASSETS							
Cash and Investments	\$ 811,599	\$ 204,739	\$ 4,607,489	\$ 430,729	\$ 49,054	\$ 567,256	\$ 6,670,866
Accounts Receivable (Net Allowance)	1,412	32,647	424,683	32,941	2,831	40,917	535,431
Special Assessments Receivable		2,300					2,300
Inventory	125,054		127,684				252,738
Total Current Assets	<u>938,065</u>	<u>239,686</u>	<u>5,159,856</u>	<u>463,670</u>	<u>51,885</u>	<u>608,173</u>	<u>7,461,335</u>
NONCURRENT ASSETS							
Restricted: Funded Reserves					203,617		203,617
Restricted: Tenant Security Deposits, Cash					12,483		12,483
Capital Assets							
Land	20,000	16,250	61,885	119,478	75,000		292,613
Construction in Process	32,888						32,888
Improvements Other than Buildings					88,025		88,025
Buildings					2,424,823		2,424,823
Plant and Equipment		6,770,973	2,727,310	6,984,793			16,483,076
Machinery and Equipment	290,462				49,373	297,793	637,628
Less: accumulated depreciation	<u>(241,184)</u>	<u>(3,209,592)</u>	<u>(2,374,441)</u>	<u>(2,748,199)</u>	<u>(689,124)</u>	<u>(218,581)</u>	<u>(9,481,121)</u>
Total Capital Assets	<u>102,166</u>	<u>3,577,631</u>	<u>414,754</u>	<u>4,356,072</u>	<u>1,948,097</u>	<u>79,212</u>	<u>10,477,932</u>
Total Noncurrent Assets	<u>102,166</u>	<u>3,577,631</u>	<u>414,754</u>	<u>4,356,072</u>	<u>2,164,197</u>	<u>79,212</u>	<u>10,694,032</u>
Total Assets	<u>1,040,231</u>	<u>3,817,317</u>	<u>5,574,610</u>	<u>4,819,742</u>	<u>2,216,082</u>	<u>687,385</u>	<u>18,155,367</u>

cont.

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION - Continued
PROPRIETARY FUNDS
DECEMBER 31, 2013**

Exhibit A-7

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
LIABILITIES							
CURRENT LIABILITIES							
Accounts Payable	1,374	4,446	291,188	1,799	3,965	10,502	313,274
Due to Other Governments	16,245	372	13,142			4,129	33,888
Consumer Deposits			21,426		12,086		33,512
Interest Payable				2,001	1,616		3,617
Current Portion - Long Term Liabilities	1,000	3,625	2,250	73,824	8,541	3,250	92,490
Total Current Liabilities	18,619	8,443	328,006	77,624	26,208	17,881	476,781
NONCURRENT LIABILITIES							
Bonds Payable				221,416			221,416
Loans Payable					2,585,748		2,585,748
Compensated Absences	4,000	14,500	9,000	14,500		13,000	55,000
Less: Current Portion of Long Term Liabilities	(1,000)	(3,625)	(2,250)	(73,824)	(8,541)	(3,250)	(92,490)
Total Noncurrent Liabilities	3,000	10,875	6,750	162,092	2,577,207	9,750	2,769,674
Total Liabilities	21,619	19,318	334,756	239,716	2,603,415	27,631	3,246,455
NET POSITION							
Net Investment in Capital Assets	102,166	3,577,631	414,754	4,134,656	(637,651)	79,212	7,670,768
Restricted for Funded Reserves					203,617		203,617
Unrestricted	916,446	220,368	4,825,100	445,370	46,701	580,542	7,034,527
Total Net Position	\$ 1,018,612	\$ 3,797,999	\$ 5,239,854	\$ 4,580,026	\$ (387,333)	\$ 659,754	\$ 14,908,912

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, 2013**

Exhibit A-8

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
OPERATING REVENUES							
Sales	\$ 1,860,685	\$	\$	\$	\$	\$	\$ 1,860,685
Cost of Sales	1,319,976						1,319,976
Gross Profit	540,709						540,709
Charges for Services		411,479	4,052,103	360,360	178,656	395,722	5,398,320
Other Services		3,095	20,737	3,043		3,722	30,597
Total Operating Revenues	540,709	414,574	4,072,840	363,403	178,656	399,444	5,969,626
OPERATING EXPENSES							
Production Expense		101,227	3,091,775				3,193,002
Distribution Expense			38,363				38,363
General Expense	246,884	102,190	157,270	163,707	100,792	360,616	1,131,459
Depreciation	7,807	322,027	70,672	257,488	65,328	15,801	739,123
Total Operating Expenses	254,691	525,444	3,358,080	421,195	166,120	376,417	5,101,947
Operating Income (Loss)	286,018	(110,870)	714,760	(57,792)	12,536	23,027	867,679
NONOPERATING REVENUE (EXPENSE)							
Property Taxes				7,203			7,203
Interest on Investments					1,634		1,634
Other Income	1,005						1,005
Interest Expense				(7,407)	(19,411)		(26,818)
Total NonOperating Revenue (Expense)	1,005			(204)	(17,777)		(16,976)
Net Income (Loss) before Transfers	287,023	(110,870)	714,760	(57,996)	(5,241)	23,027	850,703
TRANSFERS OUT	(200,000)		(500,000)		(36,071)		(736,071)
Change in Net Position	87,023	(110,870)	214,760	(57,996)	(41,312)	23,027	114,632
TOTAL NET POSITION, JANUARY 1	931,589	3,908,869	5,025,094	4,638,022	(346,021)	636,727	14,794,280
TOTAL NET POSITION, DECEMBER 31	\$ 1,018,612	\$ 3,797,999	\$ 5,239,854	\$ 4,580,026	\$ (387,333)	\$ 659,754	\$ 14,908,912

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Exhibit A-9

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers and Users	\$ 1,860,715	\$ 409,312	\$ 4,114,712	\$ 361,649	\$ 178,113	\$ 400,201	\$ 7,324,702
Payments to Suppliers	(1,347,069)	(109,646)	(3,227,701)	(59,864)	(100,107)	(174,903)	(5,019,290)
Payments to Employees	(194,383)	(102,169)	(70,587)	(102,492)		(201,982)	(671,613)
Net Cash Provided by Operating Activities	<u>319,263</u>	<u>197,497</u>	<u>816,424</u>	<u>199,293</u>	<u>78,006</u>	<u>23,316</u>	<u>1,633,799</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Nonoperating Revenue	1,005			7,203			8,208
Transfers to Other Funds	(200,000)		(500,000)		(36,071)		(736,071)
Net Cash Used by Noncapital Financing Activities	<u>(198,995)</u>		<u>(500,000)</u>	<u>7,203</u>	<u>(36,071)</u>		<u>(727,863)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Payment of Long-Term Debt				(70,748)	(8,067)		(78,815)
Interest on Long-Term Debt				(8,109)	(19,639)		(27,748)
Acquisition and Construction of Capital Assets	(32,888)	(283,624)	(28,736)	(47,271)			(392,519)
Net Cash Used by Capital and Related Financing Activities	<u>(32,888)</u>	<u>(283,624)</u>	<u>(28,736)</u>	<u>(126,128)</u>	<u>(27,706)</u>		<u>(499,082)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Deposits into Reserve Accounts					(15,927)		(15,927)
Interest Earnings					1,634		1,634
Net Cash Used by Investing Activities					<u>(14,293)</u>		<u>(14,293)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	87,380	(86,127)	287,688	80,368	(64)	23,316	392,561
CASH AND CASH EQUIVALENTS, JANUARY 1	724,219	290,866	4,319,801	350,361	61,601	543,940	6,290,788
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 811,599	\$ 204,739	\$ 4,607,489	\$ 430,729	\$ 61,537	\$ 567,256	\$ 6,683,349

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Exhibit A-9

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
CASH FLOWS FROM OPERATING ACTIVITIES							
Operating Income (Loss)	\$ 286,018	\$ (110,870)	\$ 714,760	\$ (57,792)	\$ 12,536	\$ 23,027	\$ 867,679
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Depreciation	7,807	322,027	70,672	257,488	65,328	15,801	739,123
Bad Debt Expense					1,885		1,885
Change in:							
Accounts Receivable	30	(5,263)	41,872	(1,754)	(2,116)	757	33,526
Inventory	42,694		(7,533)				35,161
Accounts Payable	162	(9,165)	11,249	351	685	737	4,019
Due to Other Governments	52	(232)	(14,697)			(3,906)	(18,783)
Other Current Liabilities			(399)		(312)		(711)
Compensated Absences	(17,500)	1,000	500	1,000		(13,100)	(28,100)
Total Adjustments	<u>33,245</u>	<u>308,367</u>	<u>101,664</u>	<u>257,085</u>	<u>65,470</u>	<u>289</u>	<u>766,120</u>
Net Cash Provided by Operating Activities	<u>\$ 319,263</u>	<u>\$ 197,497</u>	<u>\$ 816,424</u>	<u>\$ 199,293</u>	<u>\$ 78,006</u>	<u>\$ 23,316</u>	<u>\$ 1,633,799</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

**CITY OF ROSEAU, MINNESOTA
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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.

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 \$635,000.

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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, 2013, and is expected to be taken by December 31, 2014, is considered a current liability and is accrued in the December 31, 2013 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 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 expensed in the period incurred.

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

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/ expenditure) until then. The City does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one of which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *deferred revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, special assessments and notes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

For the year ended December 31, 2013, the City implemented 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.

P. 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.

**CITY OF ROSEAU, MINNESOTA
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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.

Q. 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 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.

R. 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 \$387,333 as of December 31, 2013. 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.

CITY OF ROSEAU, MINNESOTA
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- (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, 2013, 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, 2013, the City was not exposed to custodial credit risk.

NOTE 4. NOTES RECEIVABLE

At December 31, 2013, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$697,514. 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, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,137,800	\$	\$	\$ 1,137,800
Construction In Process	9,782,684	791,955	25,129	10,549,510
Total Capital Assets, Not Being Depreciated	<u>10,920,484</u>	<u>791,955</u>	<u>25,129</u>	<u>11,687,310</u>
Capital Assets, Being Depreciated:				
Buildings	12,682,429	145,024		12,827,453
Improvements Other Than Buildings	19,225,576	456,950		19,682,526
Machinery and Equipment	1,960,214	104,140	18,000	2,046,354
Total Capital Assets, Being Depreciated	<u>33,868,219</u>	<u>706,114</u>	<u>18,000</u>	<u>34,556,333</u>
Less: Accumulated Depreciation For:				
Buildings	2,161,303	323,389		2,484,692
Improvements Other Than Buildings	3,509,169	655,703		4,164,872
Machinery and Equipment	1,065,140	143,692	18,000	1,190,832
Total Accumulated Depreciation	<u>6,735,612</u>	<u>1,122,784</u>	<u>18,000</u>	<u>7,840,396</u>
Total Capital Assets, Being Depreciated, Net	<u>27,132,607</u>	<u>(416,670)</u>		<u>26,715,937</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,053,091</u>	<u>\$ 375,285</u>	<u>\$ 25,129</u>	<u>\$ 38,403,247</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 292,613	\$	\$	\$ 292,613
Construction In Process		32,888		32,888
Total Capital Assets, Not Being Depreciated	<u>292,613</u>	<u>32,888</u>		<u>325,501</u>
Capital Assets, Being Depreciated:				
Improvements Other Than Buildings	88,025			88,025
Buildings	2,424,823			2,424,823
Plant and Equipment	16,123,445	359,631		16,483,076
Machinery and Equipment	637,628			637,628
Total Capital Assets, Being Depreciated	<u>19,273,921</u>	<u>359,631</u>		<u>19,633,552</u>
Less: Accumulated Depreciation For:				
Improvements Other Than Buildings	37,411	4,402		41,813
Buildings	538,008	60,618		598,626
Plant and Equipment	7,682,045	650,187		8,332,232
Machinery and Equipment	484,534	23,916		508,450
Total Accumulated Depreciation	<u>8,741,998</u>	<u>739,123</u>		<u>9,481,121</u>
Total Capital Assets, Being Depreciated, Net	<u>10,531,923</u>	<u>(379,492)</u>		<u>10,152,431</u>
Business-type Activities Capital Assets, Net	<u>\$ 10,824,536</u>	<u>\$ (346,604)</u>	<u>\$</u>	<u>\$ 10,477,932</u>

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

Governmental Activities:	
General Government	\$ 41,393
Public Safety	97,688
Public Works, including depreciation of general infrastructure assets	619,329
Culture and Recreation	285,631
Economic Development	5,625
Airport	73,118
Total Depreciation Expenses - Governmental Activities	<u>\$ 1,122,784</u>
Business-type Activities:	
Municipal Liquor Store	\$ 7,807
Water	322,027
Electric	70,672
Sewer Service	257,488
Roseau Court Townhomes	65,328
Garbage Collections	15,801
Total Depreciation Expense - Business-type Activities	<u>\$ 739,123</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, 2013, 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.

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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 \$1,187,000.

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%	2014/17	\$ 221,416

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

<u>Year Ending December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 70,199	\$ 6,002
2015	59,187	4,027
2016	60,946	2,268
2017	31,084	458
	<u>\$ 221,416</u>	<u>\$ 12,755</u>

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

The City has the following loans:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Governmental Activities	5.0 - 5.2%	2014/16	\$ 174,967
Business-type Activities	0.0 - 5.7%	2014/35	2,585,748

<u>Lender</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Bank	3.00%	2014/16	\$ 174,967
MN Housing Finance Agency	5.72%	2014/35	338,923
MN Housing Finance Agency (*)		2023	2,246,825
			<u>\$ 2,760,715</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.

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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
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			10,730	16,975
2019-2023			63,877	74,650
2024-2028			84,969	53,558
2029-2033			113,024	25,503
2034-2035			29,032	982
	<u>\$ 174,967</u>	<u>\$ 12,311</u>	<u>\$ 338,923</u>	<u>\$ 245,198</u>

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
Governmental Activities					
Other Long-term Obligations					
Loans Payable	\$ 185,413	\$	\$ 10,446	\$ 174,967	\$ 10,768
Compensated Absences	142,400	100,986	81,386	162,000	40,500
Governmental Activity					
Long-term Liabilities	<u>\$ 327,813</u>	<u>\$ 100,986</u>	<u>\$ 91,832</u>	<u>\$ 336,967</u>	<u>\$ 51,268</u>
Business-type Activities					
Bonds Payable					
General Obligation Bonds	\$ 292,164	\$	\$ 70,748	\$ 221,416	\$ 70,199
Other Long-term Obligations					
Loans Payable	2,593,815		8,067	2,585,748	8,541
Compensated Absences	83,100	12,587	40,687	55,000	13,750
Business-type Activity					
Long-term Liabilities	<u>\$ 2,969,079</u>	<u>\$ 12,587</u>	<u>\$ 119,502</u>	<u>\$ 2,862,164</u>	<u>\$ 92,490</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-

**CITY OF ROSEAU, MINNESOTA
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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.

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 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 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. 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, 2013, 2012, and 2011 were \$67,404, \$67,183, and \$66,898, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2013, 2012, and 2011 were \$53,180, \$51,467, and \$50,199, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**CITY OF ROSEAU, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2013**

NOTE 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2013, is as follows:

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	Capital Projects	\$ 6,525
General	Nonmajor Governmental	8,321
		<u>\$ 14,846</u>

The amounts payable are to cover cash deficits on December 31, 2013.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Electric	\$ 500,000
General	Municipal Liquor Store	200,000
General	Roseau Court Townhomes	36,071
Community and Economic Development	General	5,000
		<u>\$ 741,071</u>

Transfers are used to move unrestricted revenues to finance various programs that the governmental 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, 2013, premiums of Municipal Liability totaled \$13,929, Mobile Property totaled \$44,976, Auto coverage totaled \$9,929, and Liquor Liability totaled \$2,604. 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, 2013 totaled \$9,587.

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 2012. The City may receive a dividend each year from the League of Minnesota Cities. The dividend received for Workman's Compensation in 2013 was \$9,364, and the Property and Casualty dividend received was \$26,250. 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 2013 and 2012 were \$9,000 and \$1,000, 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 2013.

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, 2013, was \$43,482.

NOTE 11. SIGNIFICANT CUSTOMER

The City has a significant customer, which represents about 23% 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. 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 this Statement 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, 2013**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Property Taxes	\$ 1,042,242	\$ 1,048,232	\$ 5,990
Franchise Fee	36,000	39,230	3,230
Special Assessments	110,000	142,602	32,602
Licenses and Permits	24,240	35,740	11,500
Intergovernmental			
Federal	383,850	232,745	(151,105)
State			
Local Government Aid	569,076	569,076	
Market Value Credit		81	81
Police Aid	39,114	38,584	(530)
Fire Aid	24,750	37,356	12,606
PERA Rate Increase Aid	4,820	4,820	
Aviation Maintenance Aid	26,251	33,682	7,431
Other State Grants	67,211	83,373	16,162
	<u>1,115,072</u>	<u>999,717</u>	<u>(115,355)</u>
Charges for Services			
General Government	31,985	28,222	(3,763)
Public Safety	58,423	64,449	6,026
Culture and Recreation	55,500	57,849	2,349
Airport	45,000	52,625	7,625
	<u>190,908</u>	<u>203,145</u>	<u>12,237</u>
Fines and Forfeitures	15,000	14,235	(765)
Miscellaneous			
Interest on Investments	35,000	25,904	(9,096)
Contributions	5,000	215	(4,785)
Property Sales	1,000		(1,000)
Reimbursements	15,000	75,268	60,268
Other Receipts	2,500	456	(2,044)
	<u>58,500</u>	<u>101,843</u>	<u>43,343</u>
Total Revenues	<u>2,591,962</u>	<u>2,584,744</u>	<u>(7,218)</u>
EXPENDITURES			
General Government			
Mayor and Council	34,315	30,038	4,277
Finance / Administration	84,937	97,519	(12,582)
Independent Auditors	12,000	11,194	806
Election			
Assessor	15,000	14,126	874
Legal Services	60,100	60,251	(151)
Planning, Zoning, Economic Development	135,681	129,726	5,955
Municipal Building	61,299	56,739	4,560
Miscellaneous	55,660	46,724	8,936
Capital Outlay	11,250	11,211	39
	<u>470,242</u>	<u>457,528</u>	<u>12,714</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, 2013

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES - Continued			
Public Safety			
Police	652,732	614,601	38,131
Fire	220,803	150,960	69,843
Building Inspector	96,760	89,894	6,866
Emergency Services	12,400	11,247	1,153
Capital Outlay	18,000	15,812	2,188
	<u>1,000,695</u>	<u>882,514</u>	<u>118,181</u>
Public Works			
Streets and Highways	387,189	398,152	(10,963)
Snow and Ice Removal	36,110	29,810	6,300
Street Lighting and Signals	43,860	36,118	7,742
Capital Outlay	811,250	454,567	356,683
	<u>1,278,409</u>	<u>918,647</u>	<u>359,762</u>
Culture and Recreation			
Library and Museum	93,869	89,477	4,392
Parks and Recreation	369,032	349,226	19,806
Capital Outlay - Parks and Recreation	398,300	373,374	24,926
	<u>861,201</u>	<u>812,077</u>	<u>49,124</u>
Economic Development			
Current Expenditures	9,900	198,747	(188,847)
Capital Outlay		12,709	(12,709)
	<u>9,900</u>	<u>211,456</u>	<u>(201,556)</u>
Airport			
Current Expenditures	105,675	91,930	13,745
Capital Outlay	237,000	141,592	95,408
	<u>342,675</u>	<u>233,522</u>	<u>109,153</u>
Total Expenditures	<u>3,963,122</u>	<u>3,515,744</u>	<u>447,378</u>
REVENUES UNDER EXPENDITURES	<u>(1,371,160)</u>	<u>(931,000)</u>	<u>440,160</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	36,000	736,071	700,071
Transfers Out	(5,000)	(5,000)	
Total Other Financing Sources (Uses)	<u>31,000</u>	<u>731,071</u>	<u>700,071</u>
NET CHANGE IN FUND BALANCE	(1,340,160)	(199,929)	1,140,231
FUND BALANCE, JANUARY 1	<u>448,493</u>	<u>448,493</u>	
FUND BALANCE, DECEMBER 31	<u>\$ (891,667)</u>	<u>\$ 248,564</u>	<u>\$ 1,140,231</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, 2013**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Intergovernmental Federal	\$	\$ 15,050	\$ 15,050
Interest on Investments		688	688
Program Income	1,000	156,241	155,241
Other Receipts		46,196	46,196
Total Revenues	<u>1,000</u>	<u>218,175</u>	<u>217,175</u>
EXPENDITURES			
Economic Development	5,000	277,485	(272,485)
Debt			
Principal		10,446	(10,446)
Interest		5,495	(5,495)
		<u>15,941</u>	<u>(15,941)</u>
Total Expenditures	<u>5,000</u>	<u>293,426</u>	<u>(288,426)</u>
REVENUES UNDER EXPENDITURES	<u>(4,000)</u>	<u>(75,251)</u>	<u>(71,251)</u>
OTHER FINANCING SOURCES			
Transfers In		5,000	5,000
Total Other Financing Sources		<u>5,000</u>	<u>5,000</u>
NET CHANGE IN FUND BALANCE	(4,000)	(70,251)	(66,251)
FUND BALANCE, JANUARY 1	<u>505,371</u>	<u>505,371</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 501,371</u>	<u>\$ 435,120</u>	<u>\$ (66,251)</u>

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013**

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 2013.

NOTE 2. EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

The community and economic development fund had \$288,426 of expenditures in excess of budget for the year ended December 31, 2013.

No remedial action is required for this expense.

**CITY OF ROSEAU, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2013**

Exhibit B-1

	<u>Special Revenue</u>			<u>Total Nonmajor Governmental Funds Exhibit A-3</u>
	<u>Lodging Tax</u>	<u>T.I.F.</u>	<u>Pine To Prairie Birding Trail</u>	
ASSETS				
Cash and Investments	\$ 116,171	\$ 91,640	\$ 5,604	\$ 213,415
Accounts Receivable	<u>3,528</u>			<u>3,528</u>
TOTAL ASSETS	<u>\$ 119,699</u>	<u>\$ 91,640</u>	<u>\$ 5,604</u>	<u>\$ 216,943</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 57			\$ 57
Due to Other Funds		8,321		8,321
Total Liabilities	<u>57</u>	<u>8,321</u>		<u>8,378</u>
Fund Balances				
Restricted for Economic Development	119,642	83,319		202,961
Committed for Birding Trail			5,604	5,604
Total Fund Balances	<u>119,642</u>	<u>83,319</u>	<u>5,604</u>	<u>208,565</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 119,699</u>	<u>\$ 91,640</u>	<u>\$ 5,604</u>	<u>\$ 216,943</u>

**CITY OF ROSEAU, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

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	\$	\$ 53,216	\$	\$ 53,216
Hotel / Motel Tax	55,044			55,044
Intergovernmental - State	3,258			3,258
Miscellaneous				
Contributions			7,610	7,610
Total Revenues	<u>58,302</u>	<u>53,216</u>	<u>7,610</u>	<u>119,128</u>
EXPENDITURES				
Current				
Culture and Recreation			5,783	5,783
Economic Development	47,029	50,610		97,639
Total Expenditures	<u>47,029</u>	<u>50,610</u>	<u>5,783</u>	<u>103,422</u>
NET CHANGE IN FUND BALANCES	11,273	2,606	1,827	15,706
FUND BALANCE, JANUARY 1	<u>108,369</u>	<u>80,713</u>	<u>3,777</u>	<u>192,859</u>
FUND BALANCE, DECEMBER 31	<u>\$ 119,642</u>	<u>\$ 83,319</u>	<u>\$ 5,604</u>	<u>\$ 208,565</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 448,493	\$ 2,584,744	\$ 3,515,744	\$ 736,071	\$ 5,000	\$ 248,564
Special Revenue						
Community and Economic Development	505,371	218,175	293,426	5,000		435,120
Lodging Tax	108,369	58,302	47,029			119,642
T.I.F.	80,713	53,216	50,610			83,319
Pine To Prairie Birding Trail	3,777	7,610	5,783			5,604
Capital Projects	13,255	508,381	511,189			10,447
Total Governmental Funds	<u>1,159,978</u>	<u>3,430,428</u>	<u>4,423,781</u>	<u>741,071</u>	<u>5,000</u>	<u>902,696</u>
Proprietary Funds						
Municipal Liquor Store	931,589	1,861,690	1,574,667		200,000	1,018,612
Water	3,908,869	414,574	525,444			3,797,999
Electric	5,025,094	4,072,840	3,358,080		500,000	5,239,854
Sewer Service	4,638,022	370,606	428,602			4,580,026
Roseau Court Townhomes	(346,021)	180,290	185,531		36,071	(387,333)
Garbage Collection	636,727	399,444	376,417			659,754
Total Proprietary Funds	<u>14,794,280</u>	<u>7,299,444</u>	<u>6,448,741</u>		<u>736,071</u>	<u>14,908,912</u>
Total Primary Government	<u>\$ 15,954,258</u>	<u>\$ 10,729,872</u>	<u>\$ 10,872,522</u>	<u>\$ 741,071</u>	<u>\$ 741,071</u>	<u>\$ 15,811,608</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2013**

BOND INDEBTEDNESS	Interest Rate	Date of Issue	Maturity Date	Amount of Issue	Balance 12/31/2012	Issued 2013	Retired 2013	Balance 12/31/2013	Principal 2014	Interest 2014
General Obligation Bonds										
1996 PFA	2.95%	11/1/1995	02-01-14/17	950,000	\$ 264,529	\$	\$ 55,827	\$ 208,702	\$ 57,484	\$ 5,736
1995 PFA	2.99%	5/9/1994	02-01-14/14	237,000	27,635		14,921	12,714	12,715	266
Total Bonds					<u>292,164</u>		<u>70,748</u>	<u>221,416</u>	<u>70,199</u>	<u>6,002</u>
Loans										
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	3.00%	6/28/2006	06-28-14/16	220,000	185,413		10,446	174,967	10,768	5,172
Mortgage Note	5.72%	8/1/2004	07-01-14/35	396,923	346,990		8,067	338,923	8,541	19,165
Total					<u>2,779,227</u>		<u>18,513</u>	<u>2,760,714</u>	<u>19,309</u>	<u>24,337</u>
Total Indebtedness					<u>\$ 3,071,391</u>	<u>\$</u>	<u>\$ 89,261</u>	<u>\$ 2,982,130</u>	<u>\$ 89,508</u>	<u>\$ 30,339</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, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2014.

Legal Compliance

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.

Purpose of the Report

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

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

April 28, 2014



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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 28, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on 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 2013-001 that we consider to be a significant deficiency.

Compliance and Other Matters

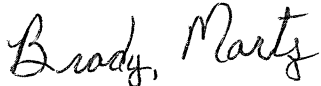
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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. The city's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of 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

April 28, 2014

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

2013-001 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, 2013, 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.