

**CITY OF ROSEAU
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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**CITY OF ROSEAU, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2014**

Mayor	Jeff Pelowski
Council	Patrick Novacek
Council	Linda Vatnsdal
Council	Curt Ireland
Council	Don Ross
City Clerk/Treasurer	Beth Hellquist
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, 2014, 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 includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial 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, 2014, 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 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. 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 combining statements and schedules are 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 10, 2015, 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 10, 2015

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$60,119,022 (net position). Of this amount, \$9,192,032 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 \$199,921, or 6% 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, 2014**

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 \$60,119,022 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 1,816,190	\$ 2,407,937	\$ 8,418,328	\$ 7,677,435	\$ 10,234,518	\$ 10,085,372
Capital Assets	43,547,778	38,403,247	9,738,468	10,477,932	53,286,246	48,881,179
Total Assets	<u>45,363,968</u>	<u>40,811,184</u>	<u>18,156,796</u>	<u>18,155,367</u>	<u>63,520,764</u>	<u>58,966,551</u>
Long-term Liabilities	163,500	336,967	2,787,422	2,862,164	2,950,922	3,199,131
Other Liabilities	58,124	55,721	392,696	384,291	450,820	440,012
Total Liabilities	<u>221,624</u>	<u>392,688</u>	<u>3,180,118</u>	<u>3,246,455</u>	<u>3,401,742</u>	<u>3,639,143</u>
Net Position						
Net Investment in						
Capital Assets	43,547,778	38,403,245	7,010,046	7,670,768	50,557,824	46,074,013
Restricted	171,420	213,408	197,746	203,617	369,166	417,025
Unrestricted	1,423,146	1,801,843	7,768,886	7,034,527	9,192,032	8,836,370
Total Net Position	<u>\$ 45,142,344</u>	<u>\$ 40,418,496</u>	<u>\$ 14,976,678</u>	<u>\$ 14,908,912</u>	<u>\$ 60,119,022</u>	<u>\$ 55,327,408</u>

A portion of the City's net position (84%) 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 are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets are 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, 2014**

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues						
Charges for Services	\$ 385,727	\$ 347,551	\$ 7,598,886	\$ 7,290,609	\$ 7,984,613	\$ 7,638,160
Operating Grants and Contributions	300,503	128,325			300,503	128,325
Capital Grants and Contributions	5,019,474	922,834			5,019,474	922,834
General Revenues						
Taxes	1,221,228	1,197,222	7,221	7,203	1,228,449	1,204,425
Unrestricted State Aid	655,221	573,977			655,221	573,977
Unrestricted Investment Earnings	50,946	60,092	1,873	1,634	52,819	61,726
Sale of Capital Asset	173,410				173,410	
Other General Revenue	154,085	75,726			154,085	75,726
Total Revenues	<u>7,960,594</u>	<u>3,305,727</u>	<u>7,607,980</u>	<u>7,299,446</u>	<u>15,568,574</u>	<u>10,605,173</u>
Expenses						
General Government	463,101	490,209			463,101	490,209
Public Safety	1,037,363	967,270			1,037,363	967,270
Public Works	993,342	1,075,470			993,342	1,075,470
Culture and Recreation	741,105	714,453			741,105	714,453
Economic Development	552,388	363,305			552,388	363,305
Airport	185,167	306,640			185,167	306,640
Interest on Long-term Debt	351	5,495			351	5,495
Municipal Liquor Store			1,580,333	1,574,666	1,580,333	1,574,666
Water			602,695	525,447	602,695	525,447
Electric			3,611,288	3,358,079	3,611,288	3,358,079
Sewer Service			421,524	428,603	421,524	428,603
Roseau Court Townhomes			209,649	185,531	209,649	185,531
Garbage			378,654	376,417	378,654	376,417
Total Expenses	<u>3,972,817</u>	<u>3,922,842</u>	<u>6,804,143</u>	<u>6,448,743</u>	<u>10,776,960</u>	<u>10,371,585</u>
Change in Net Position Before Transfers	<u>3,987,777</u>	<u>(617,115)</u>	<u>803,837</u>	<u>850,703</u>	<u>4,791,614</u>	<u>233,588</u>
Transfers	<u>736,071</u>	<u>736,071</u>	<u>(736,071)</u>	<u>(736,071)</u>		
Change in Net Position	<u>4,723,848</u>	<u>118,956</u>	<u>67,766</u>	<u>114,632</u>	<u>4,791,614</u>	<u>233,588</u>
Net Position - January 1	<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>
Net Position - December 31	<u>\$ 45,142,344</u>	<u>\$ 40,418,496</u>	<u>\$ 14,976,678</u>	<u>\$ 14,908,912</u>	<u>\$ 60,119,022</u>	<u>\$ 55,327,408</u>

Governmental activities. The change in net position before transfers was an increase of \$3,987,777. The governmental activities received \$736,071 from the business-type activities during 2014, resulting in an increase in net position of \$4,723,848.

Business-type activities. The change in net position before transfers was an increase \$803,837. The business-type activities transferred \$736,071 to the governmental activities, resulting in an increase in net position of \$67,766.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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)
	12/31/2014	12/31/2013		
Governmental Funds				
General	\$ 199,921	\$ 248,564	\$ (48,643)	-20%
Community and Economic Development	393,808	435,120	(41,312)	-9%
Capital Projects	(392,486)	10,447	(402,933)	-3857%
Proprietary Funds				
Municipal Liquor Store	1,140,526	1,018,612	121,914	12%
Water	3,644,822	3,797,999	(153,177)	-4%
Electric	5,624,627	5,239,854	384,773	7%
Sewer Service	4,433,391	4,580,026	(146,635)	-3%
Roseau Court Townhomes	(444,071)	(387,333)	(56,738)	-15%

General Fund Budgetary Highlights

During the year the City did not amend the budget.

The City received revenues under the budgeted amounts of \$123,878 and expended \$640,640 less than budget. The majority of the difference in expenditures pertains to an airport hangar project that will be completed in 2015.

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, 2014, amounts to \$53,286,246 (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, 2014**

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,137,800	\$ 1,137,800	\$ 292,613	\$ 292,613	\$ 1,430,413	\$ 1,430,413
Construction in Process	15,608,230	10,549,510	32,888	32,888	15,641,118	10,582,398
Buildings	10,029,752	10,342,761	1,765,576	1,826,197	11,795,328	12,168,958
Improvements Other Than Buildings	15,778,010	15,517,654	41,810	46,212	15,819,820	15,563,866
Plant and Equipment			7,499,696	8,150,844	7,499,696	8,150,844
Machinery and Equipment	993,986	855,522	105,885	129,178	1,099,871	984,700
Total	\$ 43,547,778	\$ 38,403,247	\$ 9,738,468	\$ 10,477,932	\$ 53,286,246	\$ 48,881,179

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 \$2,728,422 in bonds and other long-term obligations.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$	\$	\$ 151,215	\$ 221,416	\$ 151,215	\$ 221,416
Loans Payable		174,967	2,577,207	2,585,748	2,577,207	2,760,715
Total	\$	\$ 174,967	\$ 2,728,422	\$ 2,807,164	\$ 2,728,422	\$ 2,982,131

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 2014, particularly those connected to Polaris Industries. Polaris Industries did exceedingly well again in 2014, as they did in 2013. The region did not experience any significant layoffs or business closings in 2014. 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 secured.

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 very 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 its entire snowmobile line and all of the ATV models. A number of Polaris' newest market entries have been designed and/or manufactured in Roseau. In 2014 Polaris experienced continued increases in demand for product that resulted in the hiring of additional staff, both in 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.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

LifeCare Medical Center continues to invest in new improvements to its facility, purchase new equipment and add new staff. In 2014 LifeCare Medical Center and Altru Clinic made a significant expansion of its facility which will offer new services to the community including a new in-house MRI machine. Altru Clinic and LifeCare MC also added new doctors and 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 continues to hover around 0%. 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. In 2014 a new 30-unit apartment complex began construction with a second 41-unit apartment project under design. Additional single family units were constructed in Roseau as well.

Agriculture continues to provide a strong boost to the regional economy. The local farm economy provides additional diversification and stability for the overall local economy.

In 2014, the U.S. Army Corps of Engineers completed the main components of the City's East Diversion permanent flood protection project. As of the end of 2014 the project was sufficiently complete to operate in a major flood event to protect the City of Roseau. 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 certified, the East Diversion project will remove the entire City from the 100-year regulatory floodplain. Final 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, 2014**

Exhibit A-1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 719,605	\$ 7,048,715	\$ 7,768,320
Receivables			
Accounts (Net of Allowance)	22,079	522,062	544,141
Delinquent Taxes	73,000		73,000
Special Assessments	690,900	600	691,500
Notes Receivable (Net of Allowance)	616,271		616,271
Internal Balances	(392,486)	392,486	
Due from Other Governments	86,821		86,821
Inventory		243,367	243,367
Restricted: Funded Reserves		197,746	197,746
Restricted: Tenant Security Deposits, Cash		13,352	13,352
Capital Assets			
Land	1,137,800	292,613	1,430,413
Construction in Process	15,608,230	32,888	15,641,118
Buildings	12,840,162	2,424,823	15,264,985
Improvements Other than Buildings	20,616,287	88,025	20,704,312
Plant and Equipment		16,483,076	16,483,076
Machinery and Equipment	2,309,078	637,628	2,946,706
Less: accumulated depreciation	(8,963,779)	(10,220,585)	(19,184,364)
Total Capital Assets, Net of Depreciation	<u>43,547,778</u>	<u>9,738,468</u>	<u>53,286,246</u>
TOTAL ASSETS	<u>45,363,968</u>	<u>18,156,796</u>	<u>63,520,764</u>
LIABILITIES			
Accounts Payable	49,581	308,661	358,242
Accrued Payroll Expenses	4,523	843	5,366
Due to Other Governments	4,020	37,412	41,432
Consumer Deposits		40,123	40,123
Accrued Interest Payable		2,957	2,957
Prepaid Rent		2,700	2,700
Noncurrent Liabilities			
Due Within One Year	40,875	82,984	123,859
Due in More than One Year	122,625	2,704,438	2,827,063
TOTAL LIABILITIES	<u>221,624</u>	<u>3,180,118</u>	<u>3,401,742</u>
NET POSITION			
Net Investment in Capital Assets	43,547,778	7,010,046	50,557,824
Restricted for:			
Funded Reserves		197,746	197,746
Economic Development	171,420		171,420
Unrestricted	1,423,146	7,768,886	9,192,032
TOTAL NET POSITION	<u>\$ 45,142,344</u>	<u>\$ 14,976,678</u>	<u>\$ 60,119,022</u>

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

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	\$ 463,101	\$ 76,615	\$ 15,250	\$	\$ (371,236)	\$	\$ (371,236)
Public Safety	1,037,363	86,732	88,847		(861,784)		(861,784)
Public Works	993,342	25,030		4,853,415	3,885,103		3,885,103
Culture and Recreation	741,105	12,112	7,500	38,666	(682,827)		(682,827)
Economic Development	552,388	91,355	160,030		(301,003)		(301,003)
Airport	185,167	93,883	28,876	127,393	64,985		64,985
Interest on Long-term Debt	351				(351)		(351)
Total Governmental Activities	3,972,817	385,727	300,503	5,019,474	1,732,887		1,732,887
Business-type Activities:							
Municipal Liquor Store	1,580,333	1,902,247				321,914	321,914
Water	602,695	449,517				(153,178)	(153,178)
Electric	3,611,288	4,296,060				684,772	684,772
Sewer Service	421,524	367,666				(53,858)	(53,858)
Roseau Court Townhomes	209,649	187,113				(22,536)	(22,536)
Garbage	378,654	396,283				17,629	17,629
Total Business-type Activities	6,804,143	7,598,886				794,743	794,743
Total Government	\$ 10,776,960	\$ 7,984,613	\$ 300,503	\$ 5,019,474	1,732,887	794,743	2,527,630
General Revenues:							
Property Taxes					1,120,566	7,221	1,127,787
Hotel / Motel Taxes					54,826		54,826
Franchise Fee					45,836		45,836
Unrestricted State Aid					655,221		655,221
Unrestricted Investment Earnings					50,946	1,873	52,819
Other General Revenue					154,085		154,085
Sale of Capital Asset					173,410		173,410
Transfers					736,071	(736,071)	
Total General Revenues and Transfers					2,990,961	(726,977)	2,263,984
Change in Net Position					4,723,848	67,766	4,791,614
Net Position - January 1					40,418,496	14,908,912	55,327,408
Net Position - December 31					\$ 45,142,344	\$ 14,976,678	\$ 60,119,022

See Notes to the Financial Statements

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**CITY OF ROSEAU, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

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	\$ 145,292	\$ 394,558	\$	\$ 179,755	\$ 719,605
Receivables					
Accounts	18,562			3,517	22,079
Tax Receivable - Delinquent	73,000				73,000
Special Assessments					
Delinquent	42,200				42,200
Noncurrent	648,700				648,700
Notes Receivable		734,271			734,271
Due from Other Funds	6,562				6,562
Due from Other Governments	84,621	2,200			86,821
TOTAL ASSETS	<u>\$ 1,018,937</u>	<u>\$ 1,131,029</u>	<u>\$</u>	<u>\$ 183,272</u>	<u>\$ 2,333,238</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 46,573	\$ 2,950	\$	\$ 58	\$ 49,581
Accrued Payroll Expenses	4,523				4,523
Due to Other Funds			392,486	6,562	399,048
Due to Other Governments	4,020				4,020
Total Liabilities	<u>55,116</u>	<u>2,950</u>	<u>392,486</u>	<u>6,620</u>	<u>457,172</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Special Assessments	763,900	734,271			1,498,171
Total Deferred Inflows of Resources	<u>763,900</u>	<u>734,271</u>			<u>1,498,171</u>
FUND BALANCES					
Restricted for :					
Economic Development				171,420	171,420
Committed for:					
Economic Development		393,808			393,808
Birding Trail				5,232	5,232
Unassigned	199,921		(392,486)		(192,565)
Total Fund Balances	<u>199,921</u>	<u>393,808</u>	<u>(392,486)</u>	<u>176,652</u>	<u>377,895</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,018,937</u>	<u>\$ 1,131,029</u>	<u>\$</u>	<u>\$ 183,272</u>	<u>\$ 2,333,238</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, 2014

Exhibit A-4

Total fund balances - governmental funds	\$ 377,895
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	52,511,557
Less: accumulated depreciation	(8,963,779)
Compensated absences payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(163,500)
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>1,498,171</u>
Net position - governmental activities	<u>\$ 45,142,344</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, 2014**

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	\$ 1,059,122	\$	\$	\$ 70,444	\$ 1,129,566
Hotel / Motel Tax				54,826	54,826
Franchise Fee	45,836				45,836
Special Assessments	112,327				112,327
Licenses and Permits	48,546				48,546
Intergovernmental					
Federal	77,200	160,030			237,230
State	834,471		4,851,287	3,258	5,689,016
Charges for Services	214,040				214,040
Fines and Forfeitures	23,620				23,620
Interest on Investments	22,527	419			22,946
Miscellaneous	167,224	205,919	8,166	10,089	391,398
Total Revenues	<u>2,604,913</u>	<u>366,368</u>	<u>4,859,453</u>	<u>138,617</u>	<u>7,969,351</u>
EXPENDITURES					
Current					
General Government	419,710				419,710
Public Safety	926,997				926,997
Public Works	350,330				350,330
Culture and Recreation	461,624			7,872	469,496
Economic Development	129,931	237,362		162,658	529,951
Airport	72,546				72,546
Debt Service					
Principal		174,967			174,967
Interest		351			351

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, 2014

Exhibit A-5

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
EXPENDITURES - Continued					
Capital Outlay					
Public Safety	32,756				32,756
Public Works	789,001		5,262,386		6,051,387
Culture and Recreation	61,823				61,823
Economic Development	16,812				16,812
Airport	123,097				123,097
Total Expenditures	<u>3,384,627</u>	<u>412,680</u>	<u>5,262,386</u>	<u>170,530</u>	<u>9,230,223</u>
REVENUES UNDER EXPENDITURES	<u>(779,714)</u>	<u>(46,312)</u>	<u>(402,933)</u>	<u>(31,913)</u>	<u>(1,260,872)</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	(48,643)	(41,312)	(402,933)	(31,913)	(524,801)
FUND BALANCE, JANUARY 1	<u>248,564</u>	<u>435,120</u>	<u>10,447</u>	<u>208,565</u>	<u>902,696</u>
FUND BALANCE, DECEMBER 31	<u>\$ 199,921</u>	<u>\$ 393,808</u>	<u>\$ (392,486)</u>	<u>\$ 176,652</u>	<u>\$ 377,895</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, 2014**

Exhibit A-6

Total net change in fund balances - governmental funds.	\$ (524,801)
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	6,276,788
Depreciation expense	(1,153,871)
The net effect of various capital asset transactions increases net position.	21,614
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	174,967
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(54,443)
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>(16,406)</u>
Change in net position - governmental activities	<u>\$ 4,723,848</u>

See Notes to the Financial Statements

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**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

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	\$ 933,473	\$ 393,411	\$ 4,692,206	\$ 472,257	\$ 59,375	\$ 497,993	\$ 7,048,715
Accounts Receivable (Net Allowance)	1,490	22,448	421,257	31,674	1,947	43,246	522,062
Special Assessments Receivable		600					600
Due From Other Funds			392,486				392,486
Inventory	136,498		106,869				243,367
Total Current Assets	<u>1,071,461</u>	<u>416,459</u>	<u>5,612,818</u>	<u>503,931</u>	<u>61,322</u>	<u>541,239</u>	<u>8,207,230</u>
NONCURRENT ASSETS							
Restricted: Funded Reserves					197,746		197,746
Restricted: Tenant Security Deposits, Cash					13,352		13,352
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	(248,822)	(3,539,713)	(2,437,316)	(3,006,352)	(754,452)	(233,930)	(10,220,585)
Total Capital Assets	<u>94,528</u>	<u>3,247,510</u>	<u>351,879</u>	<u>4,097,919</u>	<u>1,882,769</u>	<u>63,863</u>	<u>9,738,468</u>
Total Noncurrent Assets	<u>94,528</u>	<u>3,247,510</u>	<u>351,879</u>	<u>4,097,919</u>	<u>2,093,867</u>	<u>63,863</u>	<u>9,949,566</u>
Total Assets	<u>1,165,989</u>	<u>3,663,969</u>	<u>5,964,697</u>	<u>4,601,850</u>	<u>2,155,189</u>	<u>605,102</u>	<u>18,156,796</u>

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION - Continued
PROPRIETARY FUNDS
DECEMBER 31, 2014

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	2,913	3,835	289,671	1,548	4,672	6,022	308,661
Accrued Expenses	233	921	(722)	434		(23)	843
Due to Other Governments	17,317	391	15,563	(79)		4,220	37,412
Consumer Deposits			27,058		13,065		40,123
Interest Payable				1,341	1,616		2,957
Prepaid Rent					2,700		2,700
Current Portion - Long Term Liabilities	1,250	3,500	2,125	62,692	9,042	4,375	82,984
Total Current Liabilities	<u>21,713</u>	<u>8,647</u>	<u>333,695</u>	<u>65,936</u>	<u>31,095</u>	<u>14,594</u>	<u>475,680</u>
NONCURRENT LIABILITIES							
Bonds Payable				151,215			151,215
Loans Payable					2,577,207		2,577,207
Compensated Absences	5,000	14,000	8,500	14,000		17,500	59,000
Less: Current Portion of Long Term Liabilities	(1,250)	(3,500)	(2,125)	(62,692)	(9,042)	(4,375)	(82,984)
Total Noncurrent Liabilities	<u>3,750</u>	<u>10,500</u>	<u>6,375</u>	<u>102,523</u>	<u>2,568,165</u>	<u>13,125</u>	<u>2,704,438</u>
Total Liabilities	<u>25,463</u>	<u>19,147</u>	<u>340,070</u>	<u>168,459</u>	<u>2,599,260</u>	<u>27,719</u>	<u>3,180,118</u>
NET POSITION							
Net Investment in Capital Assets	94,528	3,247,510	351,879	3,946,704	(694,438)	63,863	7,010,046
Restricted for Funded Reserves					197,746		197,746
Unrestricted	1,045,998	397,312	5,272,748	486,687	52,621	513,520	7,768,886
Total Net Position	<u>\$ 1,140,526</u>	<u>\$ 3,644,822</u>	<u>\$ 5,624,627</u>	<u>\$ 4,433,391</u>	<u>\$ (444,071)</u>	<u>\$ 577,383</u>	<u>\$ 14,976,678</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Exhibit A-8

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
OPERATING REVENUES							
Sales	\$ 1,901,367	\$	\$	\$	\$	\$	\$ 1,901,367
Cost of Sales	1,351,832						1,351,832
Gross Profit	549,535						549,535
Charges for Services		415,481	4,156,738	364,923	187,113	393,123	5,517,378
Other Services		33,258	139,323	2,744		3,160	178,485
Total Operating Revenues	549,535	448,739	4,296,061	367,667	187,113	396,283	6,245,398
OPERATING EXPENSES							
Production Expense		160,449	3,244,900				3,405,349
Distribution Expense		48	63,228				63,276
General Expense	220,862	112,076	240,285	158,027	125,156	363,305	1,219,711
Depreciation	7,638	330,120	62,875	258,153	65,328	15,349	739,463
Total Operating Expenses	228,500	602,693	3,611,288	416,180	190,484	378,654	5,427,799
Operating Income (Loss)	321,035	(153,954)	684,773	(48,513)	(3,371)	17,629	817,599
NONOPERATING REVENUE (EXPENSE)							
Property Taxes				7,221			7,221
Special Assessments		777					777
Interest on Investments					1,869		1,869
Other Income	879						879
Interest Expense				(5,343)	(19,165)		(24,508)
Total Nonoperating Revenue (Expense)	879	777		1,878	(17,296)		(13,762)
Net Income (Loss) before Transfers	321,914	(153,177)	684,773	(46,635)	(20,667)	17,629	803,837
TRANSFERS OUT	(200,000)		(300,000)	(100,000)	(36,071)	(100,000)	(736,071)
Change in Net Position	121,914	(153,177)	384,773	(146,635)	(56,738)	(82,371)	67,766
TOTAL NET POSITION, JANUARY 1	1,018,612	3,797,999	5,239,854	4,580,026	(387,333)	659,754	14,908,912
TOTAL NET POSITION, DECEMBER 31	\$ 1,140,526	\$ 3,644,822	\$ 5,624,627	\$ 4,433,391	\$ (444,071)	\$ 577,383	\$ 14,976,678

See Notes to the Financial Statements

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**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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	\$ 1,901,290	\$ 458,937	\$ 4,299,485	\$ 368,933	\$ 191,676	\$ 393,953	\$ 7,614,274
Payments to Suppliers	(1,427,571)	(165,227)	(3,446,598)	(50,466)	(124,449)	(167,776)	(5,382,087)
Payments to Employees	(152,724)	(107,516)	(75,684)	(107,958)		(195,440)	(639,322)
Net Cash Provided by Operating Activities	<u>320,995</u>	<u>186,194</u>	<u>777,203</u>	<u>210,509</u>	<u>67,227</u>	<u>30,737</u>	<u>1,592,865</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Nonoperating Revenue	879	2,478		7,221			10,578
Transfers to Other Funds	(200,000)		(300,000)	(100,000)	(36,071)	(100,000)	(736,071)
Due From Other Funds			(392,486)				(392,486)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(199,121)</u>	<u>2,478</u>	<u>(692,486)</u>	<u>(92,779)</u>	<u>(36,071)</u>	<u>(100,000)</u>	<u>(1,117,979)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Payment of Long-Term Debt				(70,201)	(8,541)		(78,742)
Interest on Long-Term Debt				(6,001)	(19,165)		(25,166)
Net Cash Used by Capital and Related Financing Activities				<u>(76,202)</u>	<u>(27,706)</u>		<u>(103,908)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Deposits into Reserve Accounts					5,871		5,871
Interest Earnings					1,869		1,869
Net Cash Provided by Investing Activities					<u>7,740</u>		<u>7,740</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	121,874	188,672	84,717	41,528	11,190	(69,263)	378,718
CASH AND CASH EQUIVALENTS, JANUARY 1	811,599	204,739	4,607,489	430,729	61,537	567,256	6,683,349
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 933,473	\$ 393,411	\$ 4,692,206	\$ 472,257	\$ 72,727	\$ 497,993	\$ 7,062,067

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

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)	\$ 321,035	\$ (153,954)	\$ 684,773	\$ (48,513)	\$ (3,371)	\$ 17,629	\$ 817,599
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Depreciation	7,638	330,120	62,875	258,153	65,328	15,349	739,463
Bad Debt Expense					4,585		4,585
Change in:							
Accounts Receivable	(78)	10,199	3,424	1,265	(3,701)	(2,329)	8,780
Inventory	(11,444)		20,815				9,371
Accounts Payable	1,539	(611)	(1,517)	(251)	707	(4,480)	(4,613)
Accrued Expenses	233	921	(722)	434		(23)	843
Prepaid Rent					2,700		2,700
Due to Other Governments	1,072	19	2,421	(79)		91	3,524
Other Current Liabilities			5,634		979		6,613
Compensated Absences	1,000	(500)	(500)	(500)		4,500	4,000
Total Adjustments	<u>(40)</u>	<u>340,148</u>	<u>92,430</u>	<u>259,022</u>	<u>70,598</u>	<u>13,108</u>	<u>775,266</u>
Net Cash Provided by Operating Activities	<u>\$ 320,995</u>	<u>\$ 186,194</u>	<u>\$ 777,203</u>	<u>\$ 210,509</u>	<u>\$ 67,227</u>	<u>\$ 30,737</u>	<u>\$ 1,592,865</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
NOTES TO THE FINANCIAL STATEMENTS
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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.

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

Special assessments receivables not expected to be collected within one year are \$645,300.

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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, 2014, and is expected to be taken by December 31, 2015, is considered a current liability and is accrued in the December 31, 2014 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, *unavailable 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.

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.

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.

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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 FUND BALANCE/NET POSITION

Deficit fund balance/net position of individual funds at December 31, 2014, is as follows:

Capital Projects Fund	\$ 392,486
Roseau Court Townhomes	444,071

The deficit of the Capital Projects Fund is expected to be eliminated through future revenue or transfer. The deficit of the Roseau Court Townhomes is expected to be eliminated upon the forgiveness of \$2,246,824 of mortgage payable in 2023.

NOTE 3. DEPOSITS AND INVESTMENTS

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

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

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

- (a) Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member of the Federal Reserve

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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, 2014, 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, 2014, the City was not exposed to custodial credit risk.

NOTE 4. NOTES RECEIVABLE

At December 31, 2014, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$734,271. 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, 2014, 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	10,549,510	5,345,342	286,622	15,608,230
Total Capital Assets, Not Being Depreciated	<u>11,687,310</u>	<u>5,345,342</u>	<u>286,622</u>	<u>16,746,030</u>
Capital Assets, Being Depreciated:				
Buildings	12,827,453	12,709		12,840,162
Improvements Other Than Buildings	19,682,526	933,761		20,616,287
Machinery and Equipment	2,046,354	313,699	50,975	2,309,078
Total Capital Assets, Being Depreciated	<u>34,556,333</u>	<u>1,260,169</u>	<u>50,975</u>	<u>35,765,527</u>
Less: Accumulated Depreciation For:				
Buildings	2,484,692	325,718		2,810,410
Improvements Other Than Buildings	4,164,872	673,405		4,838,277
Machinery and Equipment	1,190,832	154,748	30,488	1,315,092
Total Accumulated Depreciation	<u>7,840,396</u>	<u>1,153,871</u>	<u>30,488</u>	<u>8,963,779</u>
Total Capital Assets, Being Depreciated, Net	<u>26,715,937</u>	<u>106,298</u>	<u>20,487</u>	<u>26,801,748</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,403,247</u>	<u>\$ 5,451,640</u>	<u>\$ 307,109</u>	<u>\$ 43,547,778</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>325,501</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	16,483,076			16,483,076
Machinery and Equipment	637,628			637,628
Total Capital Assets, Being Depreciated	<u>19,633,552</u>			<u>19,633,552</u>
Less: Accumulated Depreciation For:				
Improvements Other Than Buildings	41,813	4,402		46,215
Buildings	598,626	60,621		659,247
Plant and Equipment	8,332,232	651,148		8,983,380
Machinery and Equipment	508,450	23,293		531,743
Total Accumulated Depreciation	<u>9,481,121</u>	<u>739,464</u>		<u>10,220,585</u>
Total Capital Assets, Being Depreciated, Net	<u>10,152,431</u>	<u>(739,464)</u>		<u>9,412,967</u>
Business-type Activities Capital Assets, Net	<u>\$ 10,477,932</u>	<u>\$ (739,464)</u>	<u>\$</u>	<u>\$ 9,738,468</u>

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

Governmental Activities:	
General Government	\$ 41,393
Public Safety	96,410
Public Works, including depreciation of general infrastructure assets	643,244
Culture and Recreation	294,081
Economic Development	5,625
Airport	73,118
Total Depreciation Expenses - Governmental Activities	<u>\$ 1,153,871</u>
Business-type Activities:	
Municipal Liquor Store	\$ 7,638
Water	330,120
Electric	62,875
Sewer Service	258,153
Roseau Court Townhomes	65,329
Garbage Collections	15,349
Total Depreciation Expense - Business-type Activities	<u>\$ 739,464</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, 2014, 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.

**CITY OF ROSEAU, MINNESOTA
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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%	2015/17	\$ 151,215

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>
2015	\$ 59,186	\$ 4,027
2016	60,945	2,268
2017	31,084	458
	<u>\$ 151,215</u>	<u>\$ 6,753</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>
Business-type Activities	0.0 - 5.7%	2015/35	\$ 2,577,207

<u>Lender</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
MN Housing Finance Agency	5.72%	2015/35	\$ 330,383
MN Housing Finance Agency (*)		2023	2,246,824
			<u>\$ 2,577,207</u>

* The debt service requirements to maturity are not disclosed because the loan will be forgiven after 20 years. There are 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	Business-type Activities	
	Principal	Interest
2015	\$ 9,042	\$ 18,663
2016	9,573	18,132
2017	10,135	17,570
2018	10,730	16,975
2019	11,360	16,345
2020-2024	67,629	70,899
2025-2029	89,958	48,568
2030-2034	119,661	18,866
2035	2,295	15
	<u>\$ 330,383</u>	<u>\$ 226,033</u>

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
<u>Governmental Activities</u>					
Other Long-term Obligations					
Loans Payable	\$ 174,967	\$	\$ 174,967	\$	\$
Compensated Absences	162,000	111,397	109,897	163,500	40,875
Governmental Activity					
Long-term Liabilities	<u>\$ 336,967</u>	<u>\$ 111,397</u>	<u>\$ 284,864</u>	<u>\$ 163,500</u>	<u>\$ 40,875</u>
<u>Business-type Activities</u>					
Bonds Payable					
General Obligation Bonds	\$ 221,416	\$	\$ 70,201	\$ 151,215	\$ 59,186
Other Long-term Obligations					
Loans Payable	2,585,748		8,541	2,577,207	9,042
Compensated Absences	55,000	52,357	48,357	59,000	14,756
Business-type Activity					
Long-term Liabilities	<u>\$ 2,862,164</u>	<u>\$ 52,357</u>	<u>\$ 127,099</u>	<u>\$ 2,787,422</u>	<u>\$ 82,984</u>

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

NOTE 8. CONDUIT DEBT (NO COMMITMENT DEBT)

The City has issued Senior Housing Revenue Bonds Series 2006 to provide financial assistance to a nonprofit corporation for the construction of an existing facility deemed to be in the public interest. The bonds are secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. The original issue amount totaled \$2,645,000.

As of December 31, 2014, the aggregate principal amount payable of the Series 2006 was \$2,645,000.

The City has issued a Municipal Industrial Development Revenue Act Bond to provide financial assistance to a corporation for the construction of a facility deemed to be in the public interest. This Bond is secured by an assignment of

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the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the Bond is not reported as a liability in the accompanying financial statements.

As of December 31, 2014, the aggregate principal amount payable of the one series issued was \$85,839.

NOTE 9. DEFINED BENEFIT PENSION PLANS

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

A. Public Employees Retirement Association

Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by social security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters, and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of 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.

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.

**CITY OF ROSEAU, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014**

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 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. 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 15.3% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$64,039, \$67,404, and \$67,183, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$60,444, \$53,180, and \$51,467, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers) and the Police and Fire Fund (10.8% for members and 16.2% for employers).

NOTE 10. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2014, is as follows:

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Electric	Capital Projects	\$ 392,486
General	Nonmajor Governmental	6,562
		<u>\$ 399,048</u>

The amounts payable are to cover cash deficits on December 31, 2014.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Electric	\$ 300,000
General	Municipal Liquor Store	200,000
General	Sewer	100,000
General	Garbage	100,000
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 11. DEFERRED COMPENSATION PLAN AND TRUST

The City of Roseau offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employees. Accordingly the plan/trust assets have been excluded to the City's reported assets.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 12. 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 liability, property, automobile, and workers' compensation coverage.

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, 2014, premiums of Municipal Liability totaled \$10,642, Property coverage totaled \$44,628, Automobile coverage totaled \$10,502, and Liquor Liability totaled \$2,192. 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, 2014 totaled \$8,585.

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 2013. The City may receive a dividend each year from the League of Minnesota Cities. There was no dividend received for Workers' Compensation in 2014; however the Property and Casualty dividend received was \$24,772. 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 2014 and 2013 were \$0 and \$231, respectively. There are \$10,000 held in reserves for unsettled general liability and errors and omissions claims for the years 2014 and 2013. 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 from the year 2013.

The City also participates in the LMCIT for its worker's compensation insurance program that is administered by a third party, Berkley Risk Administrators. The cost for the worker's compensation for the year ending December 31, 2014, was \$49,518 and \$210 for the Volunteer Accident Plan. Total liability claims for workers' compensation paid in 2014 and 2013 were \$3,179 and \$10,772, respectively.

NOTE 13. SIGNIFICANT CUSTOMER

The City has a significant customer, which represents about 34% of the water utility billings.

NOTE 14. 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 15. 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.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, amends Statement No. 68 to require that, when transitioning to the new pension standards, a state or local government recognize a beginning deferred outflow of resources for its pension contributions

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. The provisions of Statement No. 71 are effective simultaneously with the provisions of Statement No. 68.

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

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Property Taxes	\$ 1,042,242	\$ 1,059,122	\$ 16,880
Franchise Fee	32,000	45,836	13,836
Special Assessments	110,000	112,327	2,327
Licenses and Permits	22,740	48,546	25,806
Intergovernmental			
Federal	450,000	77,200	(372,800)
State			
Local Government Aid	650,330	650,330	
Market Value Credit		71	71
Police Aid	39,000	47,627	8,627
Fire Aid	35,000	37,962	2,962
PERA Rate Increase Aid	4,820	4,820	
Aviation Maintenance Aid	26,251	81,034	54,783
Other State Grants		12,627	12,627
	<u>1,205,401</u>	<u>911,671</u>	<u>(293,730)</u>
Charges for Services			
General Government	28,985	30,718	1,733
Public Safety	58,423	63,301	4,878
Culture and Recreation	56,000	58,788	2,788
Airport	45,000	61,233	16,233
	<u>188,408</u>	<u>214,040</u>	<u>25,632</u>
Fines and Forfeitures	15,000	23,620	8,620
Miscellaneous			
Interest on Investments	30,000	22,527	(7,473)
Contributions	59,500	15,250	(44,250)
Property Sales	1,000	1,800	800
Reimbursements	20,000	150,080	130,080
Other Receipts	2,500	94	(2,406)
	<u>113,000</u>	<u>189,751</u>	<u>76,751</u>
Total Revenues	<u>2,728,791</u>	<u>2,604,913</u>	<u>(123,878)</u>
EXPENDITURES			
General Government			
Mayor and Council	34,615	26,605	8,010
Finance / Administration	80,404	69,777	10,627
Independent Auditors	12,000	11,499	501
Election	3,650	3,523	127
Assessor	15,000	14,155	845
Legal Services	60,100	67,304	(7,204)
Planning, Zoning, Economic Development	141,106	133,890	7,216
Municipal Building	60,038	46,826	13,212
Miscellaneous	52,900	46,131	6,769
	<u>459,813</u>	<u>419,710</u>	<u>40,103</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, 2014

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES - Continued			
Public Safety			
Police	669,487	665,431	4,056
Fire	224,953	169,987	54,966
Building Inspector	100,352	83,637	16,715
Emergency Services	9,000	7,942	1,058
Capital Outlay	31,000	32,756	(1,756)
	<u>1,034,792</u>	<u>959,753</u>	<u>75,039</u>
Public Works			
Streets and Highways	428,230	291,031	137,199
Snow and Ice Removal	34,025	23,237	10,788
Street Lighting and Signals	43,860	36,062	7,798
Capital Outlay	900,000	789,001	110,999
	<u>1,406,115</u>	<u>1,139,331</u>	<u>266,784</u>
Culture and Recreation			
Library and Museum	95,291	98,949	(3,658)
Parks and Recreation	375,266	362,675	12,591
Capital Outlay - Parks and Recreation	34,900	61,823	(26,923)
	<u>505,457</u>	<u>523,447</u>	<u>(17,990)</u>
Economic Development			
Current Expenditures	9,700	129,931	(120,231)
Capital Outlay		16,812	(16,812)
	<u>9,700</u>	<u>146,743</u>	<u>(137,043)</u>
Airport			
Current Expenditures	109,390	72,546	36,844
Capital Outlay	500,000	123,097	376,903
	<u>609,390</u>	<u>195,643</u>	<u>413,747</u>
Total Expenditures	<u>4,025,267</u>	<u>3,384,627</u>	<u>640,640</u>
REVENUES UNDER EXPENDITURES	<u>(1,296,476)</u>	<u>(779,714)</u>	<u>516,762</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	(1,265,476)	(48,643)	1,216,833
FUND BALANCE, JANUARY 1	<u>248,564</u>	<u>248,564</u>	
FUND BALANCE, DECEMBER 31	<u>\$ (1,016,912)</u>	<u>\$ 199,921</u>	<u>\$ 1,216,833</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, 2014**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Intergovernmental Federal	\$	\$ 160,030	\$ 160,030
Interest on Investments		419	419
Program Income	1,000	168,457	167,457
Other Receipts		37,462	37,462
Total Revenues	<u>1,000</u>	<u>366,368</u>	<u>365,368</u>
EXPENDITURES			
Economic Development	5,000	237,362	(232,362)
Debt			
Principal		174,967	(174,967)
Interest		351	(351)
		<u>175,318</u>	<u>(175,318)</u>
Total Expenditures	<u>5,000</u>	<u>412,680</u>	<u>(407,680)</u>
REVENUES UNDER EXPENDITURES	<u>(4,000)</u>	<u>(46,312)</u>	<u>(42,312)</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)	(41,312)	(37,312)
FUND BALANCE, JANUARY 1	<u>435,120</u>	<u>435,120</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 431,120</u>	<u>\$ 393,808</u>	<u>\$ (37,312)</u>

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2014**

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 2014.

NOTE 2. EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

The community and economic development fund had \$407,680 of expenditures in excess of budget for the year ended December 31, 2014.

No remedial action is required for this expense.

**CITY OF ROSEAU, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2014**

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	\$ 121,231	\$ 53,292	\$ 5,232	\$ 179,755
Accounts Receivable	3,517			3,517
TOTAL ASSETS	<u>\$ 124,748</u>	<u>\$ 53,292</u>	<u>\$ 5,232</u>	<u>\$ 183,272</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 58			\$ 58
Due to Other Funds		6,562		6,562
Total Liabilities	<u>58</u>	<u>6,562</u>		<u>6,620</u>
Fund Balances				
Restricted for Economic Development	124,690	46,730		171,420
Committed for Birding Trail			5,232	5,232
Total Fund Balances	<u>124,690</u>	<u>46,730</u>	<u>5,232</u>	<u>176,652</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 124,748</u>	<u>\$ 53,292</u>	<u>\$ 5,232</u>	<u>\$ 183,272</u>

**CITY OF ROSEAU, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

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	\$	\$ 70,444	\$	\$ 70,444
Hotel / Motel Tax	54,826			54,826
Intergovernmental - State	3,258			3,258
Miscellaneous				
Contributions			7,500	7,500
Other	2,589			2,589
Total Revenues	<u>60,673</u>	<u>70,444</u>	<u>7,500</u>	<u>138,617</u>
EXPENDITURES				
Current				
Culture and Recreation			7,872	7,872
Economic Development	55,625	107,033		162,658
Total Expenditures	<u>55,625</u>	<u>107,033</u>	<u>7,872</u>	<u>170,530</u>
NET CHANGE IN FUND BALANCES	5,048	(36,589)	(372)	(31,913)
FUND BALANCE, JANUARY 1	<u>119,642</u>	<u>83,319</u>	<u>5,604</u>	<u>208,565</u>
FUND BALANCE, DECEMBER 31	<u>\$ 124,690</u>	<u>\$ 46,730</u>	<u>\$ 5,232</u>	<u>\$ 176,652</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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	\$ 248,564	\$ 2,604,913	\$ 3,384,627	\$ 736,071	\$ 5,000	\$ 199,921
Special Revenue						
Community and Economic Development	435,120	366,368	412,680	5,000		393,808
Lodging Tax	119,642	60,673	55,625			124,690
T.I.F.	83,319	70,444	107,033			46,730
Pine To Prairie Birding Trail	5,604	7,500	7,872			5,232
Capital Projects	10,447	4,859,453	5,262,386			(392,486)
Total Governmental Funds	<u>902,696</u>	<u>7,969,351</u>	<u>9,230,223</u>	<u>741,071</u>	<u>5,000</u>	<u>377,895</u>
Proprietary Funds						
Municipal Liquor Store	1,018,612	1,902,246	1,580,332		200,000	1,140,526
Water	3,797,999	449,516	602,693			3,644,822
Electric	5,239,854	4,296,061	3,611,288		300,000	5,624,627
Sewer Service	4,580,026	374,888	421,523		100,000	4,433,391
Roseau Court Townhomes	(387,333)	188,982	209,649		36,071	(444,071)
Garbage Collection	659,754	396,283	378,654		100,000	577,383
Total Proprietary Funds	<u>14,908,912</u>	<u>7,607,976</u>	<u>6,804,139</u>		<u>736,071</u>	<u>14,976,678</u>
Total Primary Government	<u>\$ 15,811,608</u>	<u>\$ 15,577,327</u>	<u>\$ 16,034,362</u>	<u>\$ 741,071</u>	<u>\$ 741,071</u>	<u>\$ 15,354,573</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2014**

BOND INDEBTEDNESS	Interest Rate	Date of Issue	Maturity Date	Amount of Issue	Balance 12/31/2013	Issued 2014	Retired 2014	Balance 12/31/2014	Principal 2015	Interest 2015
General Obligation Bonds										
1996 PFA	2.95%	11/1/1995	02-01-15/17	950,000	\$ 208,702	\$	\$ 57,487	\$ 151,215	\$ 59,186	\$ 4,027
1995 PFA	2.99%	5/9/1994		237,000	12,714		12,714			
Total Bonds					<u>221,416</u>		<u>70,201</u>	<u>151,215</u>	<u>59,186</u>	<u>4,027</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		220,000	174,967		174,967			
Mortgage Note	5.72%	8/1/2004	07-01-15/35	396,923	338,924		8,541	330,383	9,042	18,663
Total					<u>2,760,715</u>		<u>183,508</u>	<u>2,577,207</u>	<u>9,042</u>	<u>18,663</u>
Total Indebtedness					\$ <u>2,982,131</u>	\$	\$ <u>253,709</u>	\$ <u>2,728,422</u>	\$ <u>68,228</u>	\$ <u>22,690</u>

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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, 2014, and the related notes to the financial statements, and have issued our report thereon dated April 10, 2015.

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 10, 2015

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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, 2014, 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 10, 2015.

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 City'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 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

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 10, 2015

CITY OF ROSEAU, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2014

2014-001 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, 2014, 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.