

**CITY OF ROSEAU
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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CITY OF ROSEAU, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2015

Mayor	Jeff Pelowski
Council	Patrick Novacek
Council	Amy Bassingthwaite
Council	Jane Evans
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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Basis for Qualified Opinion on Governmental Activities

Management has not adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* for the Fire Relief Association. Accounting principles generally accepted in the United States of America require that GASB Statement No. 68 be adopted for governmental activities, including Fire Relief Associations. The amount by which this departure would affect the assets, net position, and revenues of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Roseau, Minnesota, as of December 31, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of December 31, 2015, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 2 to the financial statements, the City has retroactively restated the previously reported Net Position in accordance with these statements.

Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining statements, schedules, and schedule of expenditures of federal awards 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, schedules, and schedule of expenditures of federal awards 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 March 29, 2016, 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

March 29, 2016

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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, 2015.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$59,505,324 (net position). Of this amount, \$8,584,282 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 \$193,193, or 4% 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, liabilities, and deferred inflows/outflows of resources with the difference 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 seven 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, 2015**

general fund, community and economic development fund, and capital projects fund, all of which are considered major funds. Data from the other four 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 \$59,505,324 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 2,433,267	\$ 1,816,190	\$ 8,573,787	\$ 8,418,328	\$ 11,007,054	\$ 10,234,518
Capital Assets	43,897,085	43,547,778	9,280,425	9,738,468	53,177,510	53,286,246
Total Assets	<u>46,330,352</u>	<u>45,363,968</u>	<u>17,854,212</u>	<u>18,156,796</u>	<u>64,184,564</u>	<u>63,520,764</u>
Deferred Outflows of Resources	169,669		54,054		223,723	
Long-term Liabilities	1,049,457	163,500	3,127,005	2,787,422	4,176,462	2,950,922
Other Liabilities	121,023	58,124	399,236	392,696	520,259	450,820
Total Liabilities	<u>1,170,480</u>	<u>221,624</u>	<u>3,526,241</u>	<u>3,180,118</u>	<u>4,696,721</u>	<u>3,401,742</u>
Deferred Inflows of Resources	141,467		64,775		206,242	
Net Position						
Net Investment in						
Capital Assets	43,897,085	43,547,778	6,620,240	7,010,046	50,517,325	50,557,824
Restricted	180,026	171,420	223,691	212,195	403,717	383,615
Unrestricted	1,110,963	1,423,146	7,473,319	7,754,437	8,584,282	9,177,583
Total Net Position	<u>\$ 45,188,074</u>	<u>\$ 45,142,344</u>	<u>\$ 14,317,250</u>	<u>\$ 14,976,678</u>	<u>\$ 59,505,324</u>	<u>\$ 60,119,022</u>

A portion of the City's net position (85%) 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,

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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.

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues						
Charges for Services	\$ 456,631	\$ 385,727	\$ 7,467,647	\$ 7,598,886	\$ 7,924,278	\$ 7,984,613
Operating Grants and Contributions	1,086,755	300,503			1,086,755	300,503
Capital Grants and Contributions	807,370	5,019,474			807,370	5,019,474
General Revenues						
Taxes	1,233,900	1,221,228	5,141	7,221	1,239,041	1,228,449
Unrestricted State Aid	664,273	655,221			664,273	655,221
Unrestricted Investment Earnings	46,665	50,946	1,813	1,873	48,478	52,819
Sale of Capital Asset	69,434	173,410			69,434	173,410
Other General Revenue	266,743	154,085	14,000		280,743	154,085
Total Revenues	4,631,771	7,960,594	7,488,601	7,607,980	12,120,372	15,568,574
Expenses						
General Government	470,765	463,101			470,765	463,101
Public Safety	1,081,790	1,037,363			1,081,790	1,037,363
Public Works	920,573	993,342			920,573	993,342
Culture and Recreation	698,863	741,105			698,863	741,105
Economic Development	1,287,573	552,388			1,287,573	552,388
Airport	143,533	185,167			143,533	185,167
Interest on Long-term Debt		351				351
Municipal Liquor Store			1,633,402	1,580,333	1,633,402	1,580,333
Water			576,455	602,695	576,455	602,695
Electric			3,650,141	3,611,288	3,650,141	3,611,288
Sewer Service			451,456	421,524	451,456	421,524
Roseau Court Townhomes			204,276	209,649	204,276	209,649
Garbage			395,703	378,654	395,703	378,654
Total Expenses	4,603,097	3,972,817	6,911,433	6,804,143	11,514,530	10,776,960
Change in Net Position Before Transfers	28,674	3,987,777	577,168	803,837	605,842	4,791,614
Transfers	836,071	736,071	(836,071)	(736,071)		
Change in Net Position	864,745	4,723,848	(258,903)	67,766	605,842	4,791,614
Net Position - January 1	45,142,344	40,418,496	14,976,678	14,908,912	60,119,022	55,327,408
GASB 68 & 71						
Adjustment - See Note 2	(819,015)		(400,525)		(1,219,540)	
Net Position - January 1, Restated	44,323,329	40,418,496	14,576,153	14,908,912	58,899,482	55,327,408
Net Position - December 31	\$ 45,188,074	\$ 45,142,344	\$ 14,317,250	\$ 14,976,678	\$ 59,505,324	\$ 60,119,022

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Governmental activities. The change in net position before transfers was an increase of \$28,674. The governmental activities received \$836,071 from the business-type activities during 2015, resulting in an increase in net position of \$864,745.

Business-type activities. The change in net position before transfers was an increase \$577,168. The business-type activities transferred \$836,071 to the governmental activities, resulting in a decrease in net position of \$258,903.

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)
	12/31/2015	12/31/2014		
Governmental Funds				
General	\$ 193,193	\$ 199,921	\$ (6,728)	-3%
Community and Economic Development	251,495	393,808	(142,313)	-36%
Capital Projects	(466,059)	(392,486)	(73,573)	19%
Proprietary Funds				
Municipal Liquor Store	1,079,100	1,140,526	(61,426)	-5%
Water	3,295,190	3,644,822	(349,632)	-10%
Electric	5,756,042	5,624,627	131,415	2%
Sewer Service	4,177,586	4,433,391	(255,805)	-6%
Roseau Court Townhomes	(488,841)	(444,071)	(44,770)	-10%

General Fund Budgetary Highlights

During the year the City did not amend the budget.

The City received revenues over the budgeted amounts of \$1,736,595 and expended \$1,705,299 more than the budget. The majority of the difference in revenues and expenditures pertains to the airport hangar project, and \$887,000 is related to a workforce housing grant.

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, 2015, amounts to \$53,177,510 (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, 2015**

Capital Assets
(Net of Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 1,137,800	\$ 1,137,800	\$ 292,613	\$ 292,613	\$ 1,430,413	\$ 1,430,413
Construction in Process	15,810,019	15,608,230	120,498	32,888	15,930,517	15,641,118
Buildings	10,425,198	10,029,752	1,704,956	1,765,576	12,130,154	11,795,328
Improvements Other Than Buildings	15,586,492	15,778,010	37,409	41,810	15,623,901	15,819,820
Plant and Equipment			6,876,067	7,499,696	6,876,067	7,499,696
Machinery and Equipment	937,576	993,986	248,882	105,885	1,186,458	1,099,871
Total	\$ 43,897,085	\$ 43,547,778	\$ 9,280,425	\$ 9,738,468	\$ 53,177,510	\$ 53,286,246

Additional information on the City's capital assets can be found in Note 6 of this report.

Long-term Debt. At the end of the current fiscal year, the City had \$2,660,185 in bonds and other long-term obligations.

Outstanding Debt

	Business-type	
	Activities	
	2015	2014
General Obligation Bonds	\$ 92,020	\$ 151,215
Loans Payable	2,568,165	2,577,207
Total	\$ 2,660,185	\$ 2,728,422

Additional information on the City's long-term debt can be found in Note 9 of this report.

Economic Factors

National economic pressures had an impact on the local economy in 2015. Lower oil prices and a slumping stock market provided head winds to the City's largest employer, Polaris Industries. The slowdown at Polaris Industries had a trickledown effect on other local employers connected to Polaris. Polaris Industries recorded record sales in 2015; however, these sales were considerably less than anticipated, and Polaris Industries began efforts to realign production to meet lower sales goals. This realignment resulted in the layoff of roughly 200 salaried positions companywide, nine of those layoffs were in the Roseau facility. Hourly workers have witnessed longer layoffs and hiring has been frozen until sales levels increase. Additionally, Polaris Industries is in the process of opening a new production facility in Huntsville, Alabama. It is expected that this new manufacturing facility will provide a larger reach for workforce and production expansion of the company overall. Executives at the Roseau Polaris facility are not planning for further growth in the Roseau facility at this time due to labor force shortages in Northwest Minnesota. The City of Roseau through its Economic Development Authority is attempting to work with regional employers to develop a comprehensive marketing plan to market and grow our region's population and labor force in the coming years.

Stable State and Federal budgets have resulted in consistent aids for local government units, including the City of Roseau. While State and Federal operational aids do not constitute a significant portion of the City of Roseau's budget, those aids 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.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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 2015 Polaris experienced a more challenging year for sales than expected and hiring has slowed.

LifeCare Medical Center continues to invest in new improvements to its facility, purchase new equipment and add new staff. In 2015 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 to the local Roseau clinic to improve care services for local residents.

A barrier to growth in Roseau has been a lack of available housing for new residents. In 2015 the community saw the addition of over 81 new apartments units and additional single-family housing. Unfortunately, the timing of the new housing has come at roughly the same time as the slowdown at Polaris Industries, so some of the new housing projects have been slow to fill.

Agriculture provides additional diversification and stability for the overall local economy. Low commodity prices in 2015 have also caused a slowdown in the farm economy around Roseau.

In 2015, the U.S. Army Corps of Engineers completed the City's East Diversion permanent flood protection project and submitted the new hydraulic data to FEMA for removal of the City of Roseau from the 100-year floodplain. 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.

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 provide sufficient workforce and housing supply in the community 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.
- Delays in the process of removing the City from the 100-year regulatory floodplain.

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, 2015**

Exhibit A-1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 470,252	\$ 7,077,662	\$ 7,547,914
Receivables			
Accounts (Net of Allowance)	19,957	514,793	534,750
Delinquent Taxes	64,000		64,000
Special Assessments	719,200	600	719,800
Notes Receivable (Net of Allowance)	1,357,606		1,357,606
Internal Balances	(531,740)	531,740	
Due from Other Governments	333,992		333,992
Inventory		243,798	243,798
Restricted: Funded Reserves		190,293	190,293
Restricted: Tenant Security Deposits, Cash		14,901	14,901
Capital Assets			
Land	1,137,800	292,613	1,430,413
Construction in Process	15,810,019	120,498	15,930,517
Buildings	13,560,086	2,424,823	15,984,909
Improvements Other than Buildings	21,127,822	88,025	21,215,847
Plant and Equipment		16,501,515	16,501,515
Machinery and Equipment	2,414,265	709,727	3,123,992
Less: accumulated depreciation	(10,152,907)	(10,856,776)	(21,009,683)
Total Capital Assets, Net of Depreciation	<u>43,897,085</u>	<u>9,280,425</u>	<u>53,177,510</u>
TOTAL ASSETS	<u>46,330,352</u>	<u>17,854,212</u>	<u>64,184,564</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	<u>169,669</u>	<u>54,054</u>	<u>223,723</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>169,669</u>	<u>54,054</u>	<u>223,723</u>
LIABILITIES			
Accounts Payable	112,200	310,946	423,146
Accrued Payroll Expenses	4,498	1,590	6,088
Due to Other Governments	4,020	37,638	41,658
Consumer Deposits		45,114	45,114
Accrued Interest Payable		2,372	2,372
Prepaid Rent		1,576	1,576
Unearned Revenue	305		305
Noncurrent Liabilities			
Due Within One Year	45,625	88,777	134,402
Due in More than One Year	<u>1,003,832</u>	<u>3,038,228</u>	<u>4,042,060</u>
TOTAL LIABILITIES	<u>1,170,480</u>	<u>3,526,241</u>	<u>4,696,721</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	<u>141,467</u>	<u>64,775</u>	<u>206,242</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>141,467</u>	<u>64,775</u>	<u>206,242</u>
NET POSITION			
Net Investment in Capital Assets	43,897,085	6,620,240	50,517,325
Restricted for:			
Funded Reserves		190,293	190,293
MHFA - Residual Receipts		33,398	33,398
Economic Development	180,026		180,026
Unrestricted	<u>1,110,963</u>	<u>7,473,319</u>	<u>8,584,282</u>
TOTAL NET POSITION	<u>\$ 45,188,074</u>	<u>\$ 14,317,250</u>	<u>\$ 59,505,324</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

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	\$ 470,765	\$ 73,305	\$ 8,660	\$	\$ (388,800)	\$	\$ (388,800)
Public Safety	1,081,790	83,651	105,566		(892,573)		(892,573)
Public Works	920,573	22,708		116,447	(781,418)		(781,418)
Culture and Recreation	698,863	13,142	9,401		(676,320)		(676,320)
Economic Development	1,287,573	123,587	927,252		(236,734)		(236,734)
Airport	143,533	140,238	35,876	690,923	723,504		723,504
Total Governmental Activities	4,603,097	456,631	1,086,755	807,370	(2,252,341)		(2,252,341)
Business-type Activities:							
Municipal Liquor Store	1,633,402	1,974,070				340,668	340,668
Water	576,455	397,505				(178,950)	(178,950)
Electric	3,650,141	4,124,750				474,609	474,609
Sewer Service	451,456	361,189				(90,267)	(90,267)
Roseau Court Townhomes	204,276	193,764				(10,512)	(10,512)
Garbage	395,703	416,369				20,666	20,666
Total Business-type Activities	6,911,433	7,467,647				556,214	556,214
Total Government	\$ 11,514,530	\$ 7,924,278	\$ 1,086,755	\$ 807,370	(2,252,341)	556,214	(1,696,127)
			General Revenues:				
			Property Taxes		1,135,213	5,141	1,140,354
			Hotel / Motel Taxes		60,418		60,418
			Franchise Fee		38,269		38,269
			Unrestricted State Aid		664,273		664,273
			Unrestricted Investment Earnings		46,665	1,813	48,478
			Other General Revenue		266,743	14,000	280,743
			Sale of Capital Asset		69,434		69,434
			Transfers		836,071	(836,071)	
			Total General Revenues and Transfers		3,117,086	(815,117)	2,301,969
			Change in Net Position		864,745	(258,903)	605,842
			Net Position - January 1		45,142,344	14,976,678	60,119,022
			GASB 68 and 71 Adjustment - See Note 2		(819,015)	(400,525)	(1,219,540)
			Net Position - January 1, Restated		<u>44,323,329</u>	<u>14,576,153</u>	<u>58,899,482</u>
			Net Position - December 31		<u>\$ 45,188,074</u>	<u>\$ 14,317,250</u>	<u>\$ 59,505,324</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

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	\$	\$ 257,156	\$	\$ 213,096	\$ 470,252
Receivables					
Accounts	14,626			5,331	19,957
Tax Receivable - Delinquent	64,000				64,000
Special Assessments					
Delinquent	48,700				48,700
Noncurrent	670,500				670,500
Notes Receivable	887,500	899,106			1,786,606
Due from Other Funds	61,585				61,585
Due from Other Governments	325,112	8,880			333,992
TOTAL ASSETS	\$ 2,072,023	\$ 1,165,142	\$	\$ 218,427	\$ 3,455,592
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 97,860	\$ 14,340	\$	\$	\$ 112,200
Accrued Payroll Expenses	4,498				4,498
Due to Other Funds	101,752		466,059	25,514	593,325
Due to Other Governments	4,020				4,020
Unearned Revenue		305			305
Total Liabilities	<u>208,130</u>	<u>14,645</u>	<u>466,059</u>	<u>25,514</u>	<u>714,348</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	64,000				64,000
Unavailable Revenue - Notes Receivable	887,500	899,002			1,786,502
Unavailable Revenue - Special Assessments	719,200				719,200
Total Deferred Inflows of Resources	<u>1,670,700</u>	<u>899,002</u>	<u></u>	<u></u>	<u>2,569,702</u>
FUND BALANCES					
Restricted for :					
Economic Development				180,026	180,026
Committed for:					
Economic Development		251,495			251,495
Birding Trail				11,588	11,588
Roseau P.D.				1,299	1,299
Unassigned	193,193		(466,059)		(272,866)
Total Fund Balances	<u>193,193</u>	<u>251,495</u>	<u>(466,059)</u>	<u>192,913</u>	<u>171,542</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,072,023	\$ 1,165,142	\$	\$ 218,427	\$ 3,455,592

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, 2015**

Exhibit A-4

Total fund balances - governmental funds	\$ 171,542
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	54,049,992
Less: accumulated depreciation	(10,152,907)
Deferred outflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	169,669
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Net Pension Liability	(866,957)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(141,467)
Compensated absences payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(182,500)
An allowance has been set up for notes receivable in the government-wide financial statements.	(429,000)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>2,569,702</u>
Net position - governmental activities	<u>\$ 45,188,074</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, 2015

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	\$ 1,073,778	\$	\$	\$ 70,434	\$ 1,144,212
Hotel / Motel Tax				60,418	60,418
Franchise Fee	38,269				38,269
Special Assessments	75,842				75,842
Licenses and Permits	42,315				42,315
Intergovernmental					
Federal	654,559	108,211			762,770
State	1,692,012			3,944	1,695,956
Charges for Services	260,513				260,513
Fines and Forfeitures	24,798				24,798
Interest on Investments	22,312	352			22,664
Miscellaneous	344,850	226,848	5,416	10,870	587,984
Total Revenues	<u>4,229,248</u>	<u>335,411</u>	<u>5,416</u>	<u>145,666</u>	<u>4,715,741</u>
EXPENDITURES					
Current					
General Government	473,567				473,567
Public Safety	951,927				951,927
Public Works	268,898				268,898
Culture and Recreation	456,133			3,045	459,178
Economic Development	1,520,389	479,870		126,190	2,126,449
Airport	203,903				203,903
Capital Outlay					
Public Safety	6,017			170	6,187
Public Works	512,869		78,989		591,858
Culture and Recreation	72,443				72,443
Airport	603,755				603,755
Total Expenditures	<u>5,069,901</u>	<u>479,870</u>	<u>78,989</u>	<u>129,405</u>	<u>5,758,165</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(840,653)</u>	<u>(144,459)</u>	<u>(73,573)</u>	<u>16,261</u>	<u>(1,042,424)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	836,071	2,146			838,217
Transfers Out	(2,146)				(2,146)
Total Other Financing Sources (Uses)	<u>833,925</u>	<u>2,146</u>			<u>836,071</u>
NET CHANGE IN FUND BALANCES	(6,728)	(142,313)	(73,573)	16,261	(206,353)
FUND BALANCE, JANUARY 1	<u>199,921</u>	<u>393,808</u>	<u>(392,486)</u>	<u>176,652</u>	<u>377,895</u>
FUND BALANCE, DECEMBER 31	<u>\$ 193,193</u>	<u>\$ 251,495</u>	<u>\$ (466,059)</u>	<u>\$ 192,913</u>	<u>\$ 171,542</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, 2015**

Exhibit A-6

Total net change in fund balances - governmental funds.	\$ (206,353)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	1,538,435
Depreciation expense	(1,189,128)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	760,531
Change in deferred outflows and inflows of resources related to net pension liability	(17,710)
In the statement of activities, certain expenses 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).	
Compensated absences	(19,000)
Pension benefit obligation	<u>(2,030)</u>
Change in net position - governmental activities	<u>\$ 864,745</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

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	\$ 977,226	\$ 400,418	\$ 4,759,236	\$ 440,213	\$ 112,839	\$ 387,730	\$ 7,077,662
Accounts Receivable (Net Allowance)	1,519	25,276	406,818	34,253	1,866	45,061	514,793
Special Assessments Receivable		600					600
Due From Other Funds			567,811				567,811
Inventory	144,894		98,904				243,798
Total Current Assets	<u>1,123,639</u>	<u>426,294</u>	<u>5,832,769</u>	<u>474,466</u>	<u>114,705</u>	<u>432,791</u>	<u>8,404,664</u>
NONCURRENT ASSETS							
Restricted: Funded Reserves					190,293		190,293
Restricted: Tenant Security Deposits, Cash					14,901		14,901
Capital Assets							
Land	20,000	16,250	61,885	119,478	75,000		292,613
Construction in Process	32,888	42,283		45,327			120,498
Improvements Other than Buildings					88,025		88,025
Buildings					2,424,823		2,424,823
Plant and Equipment		6,770,973	2,745,749	6,984,793			16,501,515
Machinery and Equipment	290,462				49,373	369,892	709,727
Less: accumulated depreciation	(256,460)	(3,869,536)	(2,491,731)	(3,264,182)	(819,780)	(155,087)	(10,856,776)
Total Capital Assets	<u>86,890</u>	<u>2,959,970</u>	<u>315,903</u>	<u>3,885,416</u>	<u>1,817,441</u>	<u>214,805</u>	<u>9,280,425</u>
Total Noncurrent Assets	<u>86,890</u>	<u>2,959,970</u>	<u>315,903</u>	<u>3,885,416</u>	<u>2,022,635</u>	<u>214,805</u>	<u>9,485,619</u>
Total Assets	<u>1,210,529</u>	<u>3,386,264</u>	<u>6,148,672</u>	<u>4,359,882</u>	<u>2,137,340</u>	<u>647,596</u>	<u>17,890,283</u>
DEFERRED OUTFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	13,779	9,539	5,829	9,539		15,368	54,054
Total Deferred Outflows of Resources	<u>13,779</u>	<u>9,539</u>	<u>5,829</u>	<u>9,539</u>		<u>15,368</u>	<u>54,054</u>

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION - Continued
PROPRIETARY FUNDS
DECEMBER 31, 2015

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	2,342	909	293,004	196	4,239	10,256	310,946
Accrued Expenses	234	922		434			1,590
Due to Other Governments	18,236	353	14,899			4,150	37,638
Due to Other Funds					36,071		36,071
Consumer Deposits			30,600		14,514		45,114
Interest Payable				756	1,616		2,372
Prepaid Rent					1,576		1,576
Current Portion - Long Term Liabilities	1,875	4,375	2,625	65,329	9,573	5,000	88,777
Total Current Liabilities	<u>22,687</u>	<u>6,559</u>	<u>341,128</u>	<u>66,715</u>	<u>67,589</u>	<u>19,406</u>	<u>524,084</u>
NONCURRENT LIABILITIES							
Bonds Payable				92,020			92,020
Loans Payable					2,568,165		2,568,165
Compensated Absences	7,500	17,500	10,500	17,500		20,000	73,000
Net Pension Liability	100,385	69,498	42,471	69,498		111,968	393,820
Less: Current Portion of Long Term Liabilities	(1,875)	(4,375)	(2,625)	(65,329)	(9,573)	(5,000)	(88,777)
Total Noncurrent Liabilities	<u>106,010</u>	<u>82,623</u>	<u>50,346</u>	<u>113,689</u>	<u>2,558,592</u>	<u>126,968</u>	<u>3,038,228</u>
Total Liabilities	<u>128,697</u>	<u>89,182</u>	<u>391,474</u>	<u>180,404</u>	<u>2,626,181</u>	<u>146,374</u>	<u>3,562,312</u>
DEFERRED INFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	16,511	11,431	6,985	11,431		18,417	64,775
Total Deferred Inflows of Resources	<u>16,511</u>	<u>11,431</u>	<u>6,985</u>	<u>11,431</u>		<u>18,417</u>	<u>64,775</u>
NET POSITION							
Net Investment in Capital Assets	86,890	2,959,970	315,903	3,793,396	(750,724)	214,805	6,620,240
Restricted for Funded Reserves					190,293		190,293
Restricted for MHFA - Residual Receipts					33,398		33,398
Unrestricted	992,210	335,220	5,440,139	384,190	38,192	283,368	7,473,319
Total Net Position	<u>\$ 1,079,100</u>	<u>\$ 3,295,190</u>	<u>\$ 5,756,042</u>	<u>\$ 4,177,586</u>	<u>\$ (488,841)</u>	<u>\$ 498,173</u>	<u>\$ 14,317,250</u>

See Notes to the Financial Statements

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**CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Exhibit A-8

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
OPERATING REVENUES							
Sales	\$ 1,973,810	\$	\$	\$	\$	\$	\$ 1,973,810
Cost of Sales	1,408,561						1,408,561
Gross Profit	565,249						565,249
Charges for Services		393,763	4,067,441	358,263	193,764	412,911	5,426,142
Other Services		3,741	57,309	2,926		3,457	67,433
Total Operating Revenues	565,249	397,504	4,124,750	361,189	193,764	416,368	6,058,824
OPERATING EXPENSES							
Production Expense		104,130	3,129,696				3,233,826
Distribution Expense		27,569	293,106				320,675
General Expense	217,203	114,933	172,924	190,184	120,285	370,396	1,185,925
Depreciation	7,638	329,823	54,415	257,830	65,328	25,307	740,341
Total Operating Expenses	224,841	576,455	3,650,141	448,014	185,613	395,703	5,480,767
Operating Income (Loss)	340,408	(178,951)	474,609	(86,825)	8,151	20,665	578,057
NONOPERATING REVENUE (EXPENSE)							
Property Taxes				5,142			5,142
Interest on Investments					1,813		1,813
Other Income	260						260
Interest Expense				(3,441)	(18,663)		(22,104)
Gain on Sale of Asset						14,000	14,000
Total Nonoperating Revenue (Expense)	260			1,701	(16,850)	14,000	(889)
Net Income (Loss) before Transfers	340,668	(178,951)	474,609	(85,124)	(8,699)	34,665	577,168
TRANSFERS OUT	(300,000)	(100,000)	(300,000)	(100,000)	(36,071)		(836,071)
Change in Net Position	40,668	(278,951)	174,609	(185,124)	(44,770)	34,665	(258,903)
TOTAL NET POSITION, JANUARY 1	1,140,526	3,644,822	5,624,627	4,433,391	(444,071)	577,383	14,976,678
GASB 68 and 71 Adjustment - See Note 2	(102,094)	(70,681)	(43,194)	(70,681)		(113,875)	(400,525)
TOTAL NET POSITION, JANUARY 1 - RESTATED	1,038,432	3,574,141	5,581,433	4,362,710	(444,071)	463,508	14,576,153
TOTAL NET POSITION, DECEMBER 31	\$ 1,079,100	\$ 3,295,190	\$ 5,756,042	\$ 4,177,586	\$ (488,841)	\$ 498,173	\$ 14,317,250

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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	\$ 1,973,780	\$ 394,677	\$ 4,139,192	\$ 358,608	\$ 194,170	\$ 414,552	\$ 7,474,979
Payments to Suppliers	(1,489,263)	(110,023)	(3,503,132)	(48,375)	(120,718)	(175,243)	(5,446,754)
Payments to Employees	(141,024)	(135,364)	(75,266)	(138,870)		(187,324)	(677,848)
Net Cash Provided by Operating Activities	<u>343,493</u>	<u>149,290</u>	<u>560,794</u>	<u>171,363</u>	<u>73,452</u>	<u>51,985</u>	<u>1,350,377</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Nonoperating Revenue	260			5,142			5,402
Transfers to Other Funds	(300,000)	(100,000)	(300,000)	(100,000)			(800,000)
Due From Other Funds			(175,325)				(175,325)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(299,740)</u>	<u>(100,000)</u>	<u>(475,325)</u>	<u>(94,858)</u>			<u>(969,923)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Payment of Long-Term Debt				(59,195)	(9,042)		(68,237)
Interest on Long-Term Debt				(4,027)	(18,663)		(22,690)
Acquisition and Construction of Capital Assets		(42,283)	(18,439)	(45,327)		(162,248)	(268,297)
Net Cash Used by Capital and Related Financing Activities		<u>(42,283)</u>	<u>(18,439)</u>	<u>(108,549)</u>	<u>(27,705)</u>	<u>(162,248)</u>	<u>(359,224)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Tax and Insurance Escrow, Net - MN Housing					274		274
Deposits into Reserve Accounts - MN Housing					(7,623)		(7,623)
Withdrawals from Reserves - MN Housing					16,488		16,488
Interest Earnings					127		127
Net Cash Provided by Investing Activities					<u>9,266</u>		<u>9,266</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>43,753</u>	<u>7,007</u>	<u>67,030</u>	<u>(32,044)</u>	<u>55,013</u>	<u>(110,263)</u>	<u>30,496</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>933,473</u>	<u>393,411</u>	<u>4,692,206</u>	<u>472,257</u>	<u>72,727</u>	<u>497,993</u>	<u>7,062,067</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 977,226</u>	<u>\$ 400,418</u>	<u>\$ 4,759,236</u>	<u>\$ 440,213</u>	<u>\$ 127,740</u>	<u>\$ 387,730</u>	<u>\$ 7,092,563</u>

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

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)	\$ 340,408	\$ (178,951)	\$ 474,609	\$ (86,825)	\$ 8,151	\$ 20,665	\$ 578,057
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Depreciation	7,638	329,823	54,415	257,830	65,328	25,307	740,341
Bad Debt Expense					511		511
Change in:							
Accounts Receivable	(30)	(2,827)	14,442	(2,581)	(430)	(1,816)	6,758
Inventory	(8,395)		7,966				(429)
Deferred Outflows	(9,616)	(6,657)	(4,068)	(6,657)		(10,725)	(37,723)
Accounts Payable	(570)	(2,926)	3,331	(1,349)	(433)	4,233	2,286
Accrued Expenses			722			24	746
Prepaid Rent					(1,124)		(1,124)
Due to Other Governments	919	(38)	(664)	79		(70)	226
Other Current Liabilities			3,540		1,449		4,989
Compensated Absences	2,500	3,500	2,000	3,500		2,500	14,000
Net Pension Liability	(5,872)	(4,065)	(2,484)	(4,065)		(6,550)	(23,036)
Deferred Inflows	16,511	11,431	6,985	11,431		18,417	64,775
Total Adjustments	<u>3,085</u>	<u>328,241</u>	<u>86,185</u>	<u>258,188</u>	<u>65,301</u>	<u>31,320</u>	<u>772,320</u>
Net Cash Provided by Operating Activities	<u>\$ 343,493</u>	<u>\$ 149,290</u>	<u>\$ 560,794</u>	<u>\$ 171,363</u>	<u>\$ 73,452</u>	<u>\$ 51,985</u>	<u>\$ 1,350,377</u>
Noncash Capital and Related Financing							
Gain on Trade-in of Capital Asset	\$	\$	\$	\$	\$	\$ 14,000	\$ 14,000

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
DECEMBER 31, 2015**

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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 \$624,150.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, 2015, and is expected to be taken by December 31, 2016, is considered a current liability and is accrued in the December 31, 2015 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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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. Unearned Revenue

The City defers revenue recognition in connection with resources that have been received, but not yet earned.

O. 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.

P. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. 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 has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measurement date.

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 two items, 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. The second item that qualifies for reporting in this category is named *Cost Sharing Defined Benefit Pension Plan*, which represents actuarial differences within PERA pension plans.

R. Fund Equity

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

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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

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

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

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

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

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

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

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

S. 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.

T. 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. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require the City to change the accounting for the pension costs related to the City's participation in the Public Employees Retirement Association (PERA). In addition, the City will also be recognizing a net pension liability, deferred outflows of resources, and deferred inflows of resources related to the City's proportionate share of the collective amounts in PERA.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

As a result, beginning net position has been restated to reflect the related net pension liability and deferred outflows of resources as of January 1, 2015 as follows:

	Governmental Activities	Water	Sewer	Garbage	Electric	Liquor
Net Pension Liability	\$ (864,927)	\$ (73,563)	\$ (73,563)	\$ (118,518)	\$ (44,955)	\$ (106,257)
Cost Sharing Defined Benefit Pension Plan	45,912	2,882	2,882	4,643	1,761	4,163
Decrease in Net Position	<u>\$ (819,015)</u>	<u>\$ (70,681)</u>	<u>\$ (70,681)</u>	<u>\$ (113,875)</u>	<u>\$ (43,194)</u>	<u>\$ (102,094)</u>

NOTE 3. DEFICIT FUND BALANCE/NET POSITION

Deficit fund balance/net position of individual funds at December 31, 2015, is as follows:

Capital Projects Fund	\$ 466,059
Roseau Court Townhomes	488,841

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 4. 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 issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

As of December 31, 2015, 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

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

percent of the deposits not covered by insurance or bonds. As of December 31, 2015, the City was not exposed to custodial credit risk.

NOTE 5. NOTES RECEIVABLE

At December 31, 2015, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$1,786,606. The promissory notes have various maturity dates and interest rates. The provision for uncollectible notes on the statement of net position was \$429,000.

NOTE 6. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,137,800	\$	\$	\$ 1,137,800
Construction In Process	15,608,230	291,112	89,323	15,810,019
Total Capital Assets, Not Being Depreciated	<u>16,746,030</u>	<u>291,112</u>	<u>89,323</u>	<u>16,947,819</u>
Capital Assets, Being Depreciated:				
Buildings	12,840,162	719,924		13,560,086
Improvements Other Than Buildings	20,616,287	511,535		21,127,822
Machinery and Equipment	2,309,078	105,187		2,414,265
Total Capital Assets, Being Depreciated	<u>35,765,527</u>	<u>1,336,646</u>		<u>37,102,173</u>
Less: Accumulated Depreciation For:				
Buildings	2,810,410	324,478		3,134,888
Improvements Other Than Buildings	4,838,277	703,053		5,541,330
Machinery and Equipment	1,315,092	161,597		1,476,689
Total Accumulated Depreciation	<u>8,963,779</u>	<u>1,189,128</u>		<u>10,152,907</u>
Total Capital Assets, Being Depreciated, Net	<u>26,801,748</u>	<u>147,518</u>		<u>26,949,266</u>
Governmental Activities Capital Assets, Net	<u>\$ 43,547,778</u>	<u>\$ 438,630</u>	<u>\$ 89,323</u>	<u>\$ 43,897,085</u>

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

	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	87,610		120,498
Total Capital Assets, Not Being Depreciated	<u>325,501</u>	<u>87,610</u>		<u>413,111</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	18,439		16,501,515
Machinery and Equipment	637,628	176,249	104,150	709,727
Total Capital Assets, Being Depreciated	<u>19,633,552</u>	<u>194,688</u>	<u>104,150</u>	<u>19,724,090</u>
Less: Accumulated Depreciation For:				
Improvements Other Than Buildings	46,215	4,401		50,616
Buildings	659,247	60,620		719,867
Plant and Equipment	8,983,380	642,068		9,625,448
Machinery and Equipment	531,743	33,252	104,150	460,845
Total Accumulated Depreciation	<u>10,220,585</u>	<u>740,341</u>	<u>104,150</u>	<u>10,856,776</u>
Total Capital Assets, Being Depreciated, Net	<u>9,412,967</u>	<u>(545,653)</u>		<u>8,867,314</u>
Business-type Activities Capital Assets, Net	<u>\$ 9,738,468</u>	<u>\$ (458,043)</u>	<u>\$</u>	<u>\$ 9,280,425</u>

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

Governmental Activities:	
General Government	\$ 41,507
Public Safety	98,252
Public Works, including depreciation of general infrastructure assets	658,901
Culture and Recreation	310,301
Economic Development	5,625
Airport	74,542
Total Depreciation Expenses - Governmental Activities	<u>\$ 1,189,128</u>
Business-type Activities:	
Municipal Liquor Store	\$ 7,638
Water	329,823
Electric	54,415
Sewer Service	257,830
Roseau Court Townhomes	65,328
Garbage Collections	25,307
Total Depreciation Expense - Business-type Activities	<u>\$ 740,341</u>

NOTE 7. 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, 2015, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any

of the individual funds or the overall financial position of the City.

NOTE 8. DEFINED BENEFIT PENSION PLANS

The financial statements of the City of Roseau have been prepared in accordance with accounting principles generally accepted in the United States of America as described in Note 1. This note disclosure includes the proportionate share of the net pension liability, deferred inflows of resources, and deferred outflows of resources for both governmental and proprietary funds.

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

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Contributions – Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. PEPFF members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members, 7.50% for Coordinated Plan members, and 16.20% for PEPFF members in calendar year 2015. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2015, were \$65,772. The City's contributions to the Public Employees Police & Fire Fund for the year ended December 31, 2015, were \$65,215. The City's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs – At December 31, 2015, the City reported a liability of \$772,196 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0149%.

For the year ended December 31, 2015, the City recognized pension expense of \$73,573 for its proportionate share of GERF's pension expense.

At December 31, 2015, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 38,932
Difference between projected and actual investment earnings	73,100	
Changes in proportion		88,078
Contributions paid to PERA subsequent to the measurement date	32,886	
Total	<u>\$ 105,986</u>	<u>\$ 127,010</u>

\$32,886 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2016	\$ (24,062)
2017	(24,062)
2018	(24,061)
2019	18,275

At December 31, 2015, the City reported a liability of \$488,581 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0430%.

For the year ended December 31, 2015, the City recognized pension expense of \$84,194 for its proportionate share of PEPFF's pension expense.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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At December 31, 2015, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 79,232
Difference between projected and actual investment earnings	85,127	
Contributions paid to PERA subsequent to the measurement date	32,608	
Total	<u>\$ 117,735</u>	<u>\$ 79,232</u>

\$32,608 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2016	\$ 5,436
2017	5,436
2018	5,436
2019	5,436
2020	(15,849)

Actuarial Assumptions – The total pension liability in the June 30, 2015, actual valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate – The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity – The following presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

		City Proportionate Share of NPL		
		<u>1% Decrease (6.9%)</u>	<u>Current (7.9%)</u>	<u>1% Increase (8.9%)</u>
GERF	\$	1,214,166	\$ 772,196	\$ 407,196
PEPFF		952,248	488,581	105,510

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately issued PERA financial report. 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.

NOTE 9. 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 \$950,000.

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%	2016/17	\$ 92,020

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NOTES TO THE FINANCIAL STATEMENTS
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Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Business-type Activities	
	Principal	Interest
2016	\$ 60,954	\$ 2,268
2017	31,066	458
	<u>\$ 92,020</u>	<u>\$ 2,726</u>

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

The City has the following loans:

Purpose	Interest Rates	Maturity Dates	Amount
Business-type Activities	0.0 - 5.7%	2016/35	\$ 2,568,165

Lender	Interest Rates	Maturity Dates	Amount
MN Housing Finance Agency	5.72%	2016/35	\$ 321,341
MN Housing Finance Agency (*)		2023	2,246,824
			<u>\$ 2,568,165</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.

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2016	\$ 9,573	\$ 18,132
2017	10,135	17,570
2018	10,730	16,975
2019	11,360	16,345
2020	12,028	15,678
2021-2025	71,600	66,927
2026-2030	95,241	43,286
2031-2035	100,674	12,457
	<u>\$ 321,341</u>	<u>\$ 207,370</u>

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance as Restated	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Compensated Absences	\$ 163,500	\$ 95,062	\$ 76,062	\$ 182,500	\$ 45,625
Net Pension Liability - GERP	400,509		22,133	378,376	
Net Pension Liability - PEPFF	464,418	24,163		488,581	
Governmental Activity Long-term Liabilities	<u>\$ 1,028,427</u>	<u>\$ 119,225</u>	<u>\$ 98,195</u>	<u>\$ 1,049,457</u>	<u>\$ 45,625</u>
<u>Business-type Activities</u>					
Bonds Payable					
General Obligation Bonds	\$ 151,215		\$ 59,195	\$ 92,020	\$ 60,954
Other Long-term Obligations					
Loans Payable	2,577,207		9,042	2,568,165	9,573
Compensated Absences	59,000	56,797	42,797	73,000	18,250
Net Pension Liability - GERP	416,856		23,036	393,820	
Business-type Activity Long-term Liabilities	<u>\$ 3,204,278</u>	<u>\$ 56,797</u>	<u>\$ 134,070</u>	<u>\$ 3,127,005</u>	<u>\$ 88,777</u>

In the governmental activities, compensated absences are generally liquidated by the general fund. The net pension liability is generally liquidated by the general and proprietary funds.

NOTE 10. 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. In 2015, the issue was refinanced to \$3,529,681.

As of December 31, 2015, the aggregate principal amount payable of the Series 2006 was \$3,529,681.

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 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, 2015, the aggregate principal amount payable of the one series issued was \$85,839.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2015, is as follows:

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Electric	Capital Projects	\$ 466,059
Electric	General	101,752
General	Roseau Court Townhomes	36,071
General	Nonmajor Governmental	25,514
		<u>\$ 629,396</u>

The amounts payable are to cover cash deficits on December 31, 2015 and report the 2014 due to the City from Roseau Court Townhomes.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Electric	\$ 300,000
General	Municipal Liquor Store	300,000
General	Sewer	100,000
General	Water	100,000
General	Roseau Court Townhomes	36,071
Community and Economic Development	General	2,146
		<u>\$ 838,217</u>

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

NOTE 12. 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.

NOTE 13. 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 \$2,000,000 per occurrence in liability coverage. For the year ending December 31, 2015, premiums of Municipal Liability totaled \$10,642, Property coverage totaled \$43,529, Automobile coverage totaled \$11,356, and Liquor Liability totaled \$2,438. 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, 2015 totaled \$7,575.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 2014. The City may receive a dividend each year from the League of Minnesota Cities. There was no dividend received for Workers' Compensation in 2015; however the Property and Casualty dividend received was \$40,031. 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 2015 and 2014 were \$0 and \$0, respectively. There was \$7,500 paid under errors and omissions claims for the year 2014 and none paid in 2015. 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 2014.

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, 2015, was \$47,933 and \$191 for the Volunteer Accident Plan. Total liability claims for workers' compensation paid in 2015 and 2014 were \$7,388 and \$4,430, respectively. An additional amount of \$44,128 has been put in reserve, as of December 31, 2015.

NOTE 14. SIGNIFICANT CUSTOMER

The City has a significant customer, which represents about 21% of the water utility billings.

NOTE 15. 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 16. NEW PRONOUNCEMENTS

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies,

CITY OF ROSEAU, MINNESOTA
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DECEMBER 31, 2015

municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

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, 2015**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Property Taxes	\$ 1,044,242	\$ 1,073,778	\$ 29,536
Franchise Fee	40,000	38,269	(1,731)
Special Assessments	100,000	75,842	(24,158)
Licenses and Permits	27,740	42,315	14,575
Intergovernmental			
Federal	194,034	654,559	460,525
State			
Local Government Aid	659,008	695,313	36,305
Market Value Credit		445	445
Police Aid	39,000	57,564	18,564
Fire Aid	35,000	42,589	7,589
PERA Rate Increase Aid	4,820	4,820	
Aviation Maintenance Aid	28,876	72,240	43,364
Other State Grants	43,525	819,041	775,516
	<u>1,004,263</u>	<u>2,346,571</u>	<u>1,342,308</u>
Charges for Services			
General Government	40,985	36,175	(4,810)
Public Safety	59,423	59,047	(376)
Culture and Recreation	56,500	60,238	3,738
Airport	37,000	105,053	68,053
	<u>193,908</u>	<u>260,513</u>	<u>66,605</u>
Fines and Forfeitures	16,000	24,798	8,798
Miscellaneous			
Interest on Investments	18,000	22,312	4,312
Contributions	5,000	8,660	3,660
Property Sales	1,000	69,434	68,434
Reimbursements	40,000	261,803	221,803
Other Receipts	2,500	4,953	2,453
	<u>66,500</u>	<u>367,162</u>	<u>300,662</u>
Total Revenues	<u>2,492,653</u>	<u>4,229,248</u>	<u>1,736,595</u>
EXPENDITURES			
General Government			
Mayor and Council	34,720	30,103	4,617
Finance / Administration	104,855	88,013	16,842
Independent Auditors	12,000	11,224	776
Assessor	15,000	14,209	791
Legal Services	61,600	61,878	(278)
Planning, Zoning, Economic Development	117,345	113,549	3,796
Municipal Building	60,564	53,465	7,099
Miscellaneous	47,900	101,126	(53,226)
	<u>453,984</u>	<u>473,567</u>	<u>(19,583)</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, 2015

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES - Continued			
Public Safety			
Police	721,297	677,688	43,609
Fire	230,893	162,872	68,021
Building Inspector	101,671	103,921	(2,250)
Emergency Services	10,200	7,446	2,754
Capital Outlay		6,017	(6,017)
	<u>1,064,061</u>	<u>957,944</u>	<u>106,117</u>
Public Works			
Streets and Highways	285,383	223,846	61,537
Snow and Ice Removal	34,025	7,834	26,191
Street Lighting and Signals	43,860	37,218	6,642
Capital Outlay	425,500	512,869	(87,369)
	<u>788,768</u>	<u>781,767</u>	<u>7,001</u>
Culture and Recreation			
Library and Museum	100,110	87,112	12,998
Parks and Recreation	412,120	369,021	43,099
Capital Outlay - Parks and Recreation	153,500	72,443	81,057
	<u>665,730</u>	<u>528,576</u>	<u>137,154</u>
Economic Development			
Current Expenditures	42,969	1,520,389	(1,477,420)
	<u>42,969</u>	<u>1,520,389</u>	<u>(1,477,420)</u>
Airport			
Current Expenditures	329,090	203,903	125,187
Capital Outlay	20,000	603,755	(583,755)
	<u>349,090</u>	<u>807,658</u>	<u>(458,568)</u>
Total Expenditures	<u>3,364,602</u>	<u>5,069,901</u>	<u>(1,705,299)</u>
REVENUES UNDER EXPENDITURES	<u>(871,949)</u>	<u>(840,653)</u>	<u>31,296</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	36,000	836,071	800,071
Transfers Out	(5,000)	(2,146)	2,854
Total Other Financing Sources (Uses)	<u>31,000</u>	<u>833,925</u>	<u>802,925</u>
NET CHANGE IN FUND BALANCE	(840,949)	(6,728)	834,221
FUND BALANCE, JANUARY 1	<u>199,921</u>	<u>199,921</u>	
FUND BALANCE, DECEMBER 31	<u>\$ (641,028)</u>	<u>\$ 193,193</u>	<u>\$ 834,221</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, 2015**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Intergovernmental Federal	\$	\$ 108,211	\$ 108,211
Interest on Investments		352	352
Program Income	1,000	199,740	198,740
Other Receipts		27,108	27,108
	<u>1,000</u>	<u>335,411</u>	<u>334,411</u>
EXPENDITURES			
Economic Development	<u>5,000</u>	<u>479,870</u>	<u>(474,870)</u>
	<u>5,000</u>	<u>479,870</u>	<u>(474,870)</u>
REVENUES UNDER EXPENDITURES			
	<u>(4,000)</u>	<u>(144,459)</u>	<u>(140,459)</u>
OTHER FINANCING SOURCES			
Transfers In		<u>2,146</u>	<u>2,146</u>
		<u>2,146</u>	<u>2,146</u>
NET CHANGE IN FUND BALANCE			
	(4,000)	(142,313)	(138,313)
FUND BALANCE, JANUARY 1			
	<u>393,808</u>	<u>393,808</u>	
FUND BALANCE, DECEMBER 31			
	<u>\$ 389,808</u>	<u>\$ 251,495</u>	<u>\$ (138,313)</u>

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
LAST 10 YEARS**

	<u>Fiscal Year Ended December 31</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
GERF	2015	\$ 65,772	\$ 65,772	\$	\$ 876,961	7.50 %
PEPFF	2015	\$ 65,215	\$ 65,215	\$	\$ 402,563	16.20 %

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CITY'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

	<u>Fiscal Year Ended June 30</u>	<u>City's Proportion of the Net Pension Liability</u>	<u>City's Proportionate Share of the Net Pension Liability</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
GERF	2015	0.0149 %	\$ 772,196	\$ 879,546	87.79 %	78.19 %
PEPFF	2015	0.0430 %	\$ 488,581	\$ 398,812	122.51 %	86.61 %

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30.

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015**

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 2015.

NOTE 2. EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

The general fund had \$1,705,299 of expenditures in excess of budget for the year ended December 31, 2015, and the community and economic development fund had \$474,870 of expenditures in excess of budget.

No remedial action is required for this expense.

NOTE 3. DEFINED BENEFIT PLANS

There are no factors that affect trends in the amounts reported, such as a change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the PERA CAFR.

CITY OF ROSEAU, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2015

Exhibit B-1

	Special Revenue				Total Nonmajor Governmental Funds Exhibit A-3
	Lodging Tax	T.I.F.	Pine To Prairie Birding Trail	Roseau P.D.	
ASSETS					
Cash and Investments	\$ 128,412	\$ 71,797	\$ 11,588	\$ 1,299	\$ 213,096
Accounts Receivable	5,331				5,331
TOTAL ASSETS	\$ 133,743	\$ 71,797	\$ 11,588	\$ 1,299	\$ 218,427
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to Other Funds	\$	\$ 25,514	\$	\$	\$ 25,514
Total Liabilities		25,514			25,514
Fund Balances					
Restricted for					
Economic Development	133,743	46,283			180,026
Committed for Birding Trail			11,588		11,588
Committed for Public Safety				1,299	1,299
Total Fund Balances	133,743	46,283	11,588	1,299	192,913
TOTAL LIABILITIES AND FUND BALANCES	\$ 133,743	\$ 71,797	\$ 11,588	\$ 1,299	\$ 218,427

**CITY OF ROSEAU, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015**

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>	<u>Roseau P.D.</u>	
REVENUES					
Property Taxes	\$	\$ 70,434	\$	\$	\$ 70,434
Hotel / Motel Tax	60,418				60,418
Intergovernmental - State	3,944				3,944
Miscellaneous					
Contributions			9,401	1,469	10,870
Total Revenues	<u>64,362</u>	<u>70,434</u>	<u>9,401</u>	<u>1,469</u>	<u>145,666</u>
EXPENDITURES					
Current					
Police				170	170
Culture and Recreation			3,045		3,045
Economic Development	55,309	70,881			126,190
Total Expenditures	<u>55,309</u>	<u>70,881</u>	<u>3,045</u>	<u>170</u>	<u>129,405</u>
NET CHANGE IN FUND BALANCES	9,053	(447)	6,356	1,299	16,261
FUND BALANCE, JANUARY 1	<u>124,690</u>	<u>46,730</u>	<u>5,232</u>		<u>176,652</u>
FUND BALANCE, DECEMBER 31	<u>\$ 133,743</u>	<u>\$ 46,283</u>	<u>\$ 11,588</u>	<u>\$ 1,299</u>	<u>\$ 192,913</u>

CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Prior Period Adjustment</u>	<u>Ending Balance</u>
Governmental Funds							
General	\$ 199,921	\$ 4,229,248	\$ 5,069,901	\$ 836,071	\$ 2,146	\$	\$ 193,193
Special Revenue							
Community and Economic Development	393,808	335,411	479,870	2,146			251,495
Lodging Tax	124,690	64,362	55,309				133,743
T.I.F.	46,730	70,434	70,881				46,283
Pine To Prairie Birding Trail	5,232	9,401	3,045				11,588
Roseau PD		1,469	170				1,299
Capital Projects	<u>(392,486)</u>	<u>5,416</u>	<u>78,989</u>				<u>(466,059)</u>
Total Governmental Funds	<u>377,895</u>	<u>4,715,741</u>	<u>5,758,165</u>	<u>838,217</u>	<u>2,146</u>		<u>171,542</u>
Proprietary Funds							
Municipal Liquor Store	1,140,526	1,974,070	1,633,402		300,000	(102,094)	1,079,100
Water	3,644,822	397,504	576,455		100,000	(70,681)	3,295,190
Electric	5,624,627	4,124,750	3,650,141		300,000	(43,194)	5,756,042
Sewer Service	4,433,391	366,331	451,455		100,000	(70,681)	4,177,586
Roseau Court Townhomes	(444,071)	195,577	204,276		36,071		(488,841)
Garbage Collection	<u>577,383</u>	<u>430,368</u>	<u>395,703</u>			<u>(113,875)</u>	<u>498,173</u>
Total Proprietary Funds	<u>14,976,678</u>	<u>7,488,600</u>	<u>6,911,432</u>		<u>836,071</u>	<u>(400,525)</u>	<u>14,317,250</u>
Total Primary Government	<u>\$ 15,354,573</u>	<u>\$ 12,204,341</u>	<u>\$ 12,669,597</u>	<u>\$ 838,217</u>	<u>\$ 838,217</u>	<u>\$ (400,525)</u>	<u>\$ 14,488,792</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2015**

	Interest Rate	Date of Issue	Maturity Date	Amount of Issue	Balance 12/31/2014	Issued 2015	Retired 2015	Balance 12/31/2015	Principal 2016	Interest 2016
BOND INDEBTEDNESS										
General Obligation Bonds										
1996 PFA	2.95%	11/1/1995	02-01-16/17	950,000	\$ 151,215	\$	\$ 59,195	\$ 92,020	\$ 60,954	\$ 2,268
Total Bonds					<u>151,215</u>		<u>59,195</u>	<u>92,020</u>	<u>60,954</u>	<u>2,268</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		
Mortgage Note	5.72%	8/1/2004	07-01-16/35	396,923	330,383		9,042	321,341	9,573	18,132
Total					<u>2,577,207</u>		<u>9,042</u>	<u>2,568,165</u>	<u>9,573</u>	<u>18,132</u>
Total Indebtedness					\$ <u>2,728,422</u>	\$	\$ <u>68,237</u>	\$ <u>2,660,185</u>	\$ <u>70,527</u>	\$ <u>20,400</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, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2016. The governmental activities has a qualified report because the City did not adopt the provisions of GASB Statement No. 68 for the Fire Relief Association.

Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, 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 Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

Purpose of the Report

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

A handwritten signature in cursive script that reads "Brady Martz".

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

March 29, 2016

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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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 29, 2016. The governmental activities had a qualified report because the City did not adopt the provisions of GASB Statement No. 68 for the Fire Relief Association.

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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 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 Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. 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

March 29, 2016



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Roseau's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Roseau complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the City of Roseau is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*. However, material weaknesses may exist that have not been identified.

Purpose of the Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

March 29, 2016

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
<u>U.S. Department of Transportation</u>			
Passed-Through Minnesota Department of Transportation:			
Airport Improvement Program	20.106	SP 6801-33	\$ 125,039
Airport Improvement Program	20.106	SP 6801-31	<u>529,520</u>
Total U.S. Department of Transportation			<u>654,559</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed-Through Minnesota Department of Employment and Economic Development:			
Community Development Block Grant	14.228	CDAP-12-0047-0-FY13	<u>108,211</u>
Total U.S. Department of Housing and Urban Development			<u>108,211</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 762,770</u>

See accompanying notes to the schedule of expenditures of federal awards.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2015**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Roseau under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Roseau, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Roseau.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 SUBRECIPIENTS

During 2015, the City did not pass any federal money to subrecipients.

**CITY OF ROSEAU, MINNESOTA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2015**

Section I-Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Unmodified
Community & Economic Development Fund	Unmodified
Capital Projects Fund	Unmodified
Municipal Liquor Store Fund	Unmodified
Water Fund	Unmodified
Electric Fund	Unmodified
Sewer Service Fund	Unmodified
Roseau Court Townhomes	Unmodified
Aggregate Remaining Funds	Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no
 Significant deficiency(s) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal Control over major federal programs:

Material weakness(es) identified? yes no
 Significant deficiency(s) identified? yes none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major federal programs:

CFDA Number(s) Name of Federal Program or Cluster

20.106 Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2015**

Section II- Financial Statement Findings

2015-001 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, 2015, 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.

Repeat Finding

Yes. Prior audit finding 2014-001

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.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will review on an annual basis.

Section III-Federal Award Findings and Questioned Costs

There are no findings which are required to be reported under this section.

**CITY OF ROSEAU, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2015**

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 Taken

No action taken. See current year finding 2015-001 and Corrective Action Plan.

2015-001 FINDING

Contact Person – Todd Peterson, Community Development Coordinator

Corrective Action Plan - Will obtain internal expertise to handle all aspects of external financial reporting when it becomes economically feasible.

Completion Date - Ongoing