

**CITY OF ROSEAU
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
CITY OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-4
REQUIRED SUPPLEMENTARY INFORMATION		
Management's Discussion and Analysis		5-10
BASIC FINANCIAL STATEMENTS		
Government-wide Financial Statements:		
Statement of Net Position	A-1	11
Statement of Activities	A-2	12
Fund Financial Statements:		
Balance Sheet – Governmental Funds	A-3	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	A-4	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	A-5	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	A-6	16
Statement of Net Position – Proprietary Funds	A-7	17-18
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	A-8	19
Statement of Cash Flows – Proprietary Funds	A-9	20-21
Notes to the Financial Statements		22-38
REQUIRED SUPPLEMENTARY INFORMATION		
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual General Fund		39-40
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Community and Economic Development Fund		41
Schedule of City Contributions		42
Schedule of City's Share of Net Pension Liability		43
Notes to the Required Supplementary Information		44

TABLE OF CONTENTS - Page 2

	<u>Exhibit</u>	<u>Page</u>
SUPPLEMENTARY INFORMATION		
Combining Balance Sheet – Nonmajor Governmental Funds	B-1	45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	B-2	46
Schedule of Changes in Fund Balances and Net Position		47
Schedule of Indebtedness		48
OTHER REPORTS		
Independent Auditor’s Report on Minnesota Legal Compliance		49
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 <i>Government Auditing Standards</i>		50-51
Schedule of Findings		52
Corrective Action Plan		53

**CITY OF ROSEAU, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2016**

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, 2016, 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, 2016, 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 combining statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017, 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, 2017

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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, 2016.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$58,973,123 (net position). Of this amount, \$8,815,159 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 \$508,444, or 16% 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, 2016**

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 \$58,973,123 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 2,465,114	\$ 2,433,267	\$ 9,077,426	\$ 8,573,787	\$ 11,542,540	\$ 11,007,054
Capital Assets	43,706,160	43,897,085	8,651,367	9,280,425	52,357,527	53,177,510
Total Assets	<u>46,171,274</u>	<u>46,330,352</u>	<u>17,728,793</u>	<u>17,854,212</u>	<u>63,900,067</u>	<u>64,184,564</u>
Deferred Outflows of Resources	<u>1,461,497</u>	<u>169,669</u>	<u>251,081</u>	<u>54,054</u>	<u>1,712,578</u>	<u>223,723</u>
Long-term Liabilities	2,435,403	1,049,457	3,264,238	3,127,005	5,699,641	4,176,462
Other Liabilities	94,218	121,023	474,154	399,236	568,372	520,259
Total Liabilities	<u>2,529,621</u>	<u>1,170,480</u>	<u>3,738,392</u>	<u>3,526,241</u>	<u>6,268,013</u>	<u>4,696,721</u>
Deferred Inflows of Resources	<u>286,235</u>	<u>141,467</u>	<u>85,274</u>	<u>64,775</u>	<u>371,509</u>	<u>206,242</u>
Net Position						
Net Investment in						
Capital Assets	43,706,160	43,897,085	6,061,709	6,620,240	49,767,869	50,517,325
Restricted	167,216	180,026	222,879	223,691	390,095	403,717
Unrestricted	943,539	1,110,963	7,871,620	7,473,319	8,815,159	8,584,282
Total Net Position	<u>\$ 44,816,915</u>	<u>\$ 45,188,074</u>	<u>\$ 14,156,208</u>	<u>\$ 14,317,250</u>	<u>\$ 58,973,123</u>	<u>\$ 59,505,324</u>

A portion of the City's net position (84%) reflects its investment in capital assets (e.g., land, construction in process, buildings, improvements other than buildings, machinery and equipment), less any related debt used to acquire assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets are reported net of related debt,

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$ 282,637	\$ 456,631	\$ 7,470,810	\$ 7,467,647	\$ 7,753,447	\$ 7,924,278
Operating Grants and Contributions	217,212	1,086,755			217,212	1,086,755
Capital Grants and Contributions	276,677	807,370			276,677	807,370
General Revenues						
Taxes	1,206,529	1,233,900	5,135	5,141	1,211,664	1,239,041
Unrestricted State Aid	667,292	664,273			667,292	664,273
Unrestricted Investment Earnings	49,562	46,665	2,377	1,813	51,939	48,478
Sale of Capital Asset	1,550	69,434			1,550	69,434
Other General Revenue	351,877	266,743	741	14,000	352,618	280,743
Total Revenues	<u>3,053,336</u>	<u>4,631,771</u>	<u>7,479,063</u>	<u>7,488,601</u>	<u>10,532,399</u>	<u>12,120,372</u>
Expenses						
General Government	461,435	470,765			461,435	470,765
Public Safety	1,323,606	1,081,790			1,323,606	1,081,790
Public Works	978,860	920,573			978,860	920,573
Culture and Recreation	815,394	698,863			815,394	698,863
Economic Development	227,377	1,287,573			227,377	1,287,573
Airport	153,894	143,533			153,894	143,533
Municipal Liquor Store			1,589,355	1,633,402	1,589,355	1,633,402
Water			631,871	576,455	631,871	576,455
Electric			3,780,196	3,650,141	3,780,196	3,650,141
Sewer Service			473,035	451,456	473,035	451,456
Roseau Court Townhomes			218,344	204,276	218,344	204,276
Garbage			411,233	395,703	411,233	395,703
Total Expenses	<u>3,960,566</u>	<u>4,603,097</u>	<u>7,104,034</u>	<u>6,911,433</u>	<u>11,064,600</u>	<u>11,514,530</u>
Change in Net Position Before Transfers	(907,230)	28,674	375,029	577,168	(532,201)	605,842
Transfers	<u>536,071</u>	<u>836,071</u>	<u>(536,071)</u>	<u>(836,071)</u>		
Change in Net Position	(371,159)	864,745	(161,042)	(258,903)	(532,201)	605,842
Net Position - January 1	<u>45,188,074</u>	<u>44,323,329</u>	<u>14,317,250</u>	<u>14,576,153</u>	<u>59,505,324</u>	<u>58,899,482</u>
Net Position - December 31	<u>\$ 44,816,915</u>	<u>\$ 45,188,074</u>	<u>\$ 14,156,208</u>	<u>\$ 14,317,250</u>	<u>\$ 58,973,123</u>	<u>\$ 59,505,324</u>

Governmental activities. The change in net position before transfers was a decrease of \$907,230. The governmental activities received \$536,071 from the business-type activities during 2016, resulting in a decrease in net position of \$371,159.

Business-type activities. The change in net position before transfers was an increase \$375,029. The business-type activities transferred \$536,071 to the governmental activities, resulting in a decrease in net position of \$161,042.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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)
	12/31/2016	12/31/2015		
Governmental Funds				
General	\$ 508,444	\$ 193,193	\$ 315,251	163%
Community and Economic Development	335,394	251,495	83,899	33%
Capital Projects	(500,682)	(466,059)	(34,623)	-7%
Proprietary Funds				
Municipal Liquor Store	1,371,340	1,079,100	292,240	27%
Water	2,972,930	3,295,190	(322,260)	-10%
Electric	5,848,741	5,756,042	92,699	2%
Sewer Service	3,973,786	4,177,586	(203,800)	-5%
Roseau Court Townhomes	(537,376)	(488,841)	(48,535)	-10%

General Fund Budgetary Highlights

During the year the City did not amend the budget.

The City received revenues over the budgeted amounts of \$710,766 and expended \$322,423 less than the budget. The majority of the difference in revenues pertains to the airport hangar project, a \$212,000 loan payoff of the Parkland Apartments, and house proceeds of \$176,000 for the Northwest Community Action sale.

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, 2016, amounts to \$52,357,527 (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, 2016**

**Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,146,876	\$ 1,137,800	\$ 292,613	\$ 292,613	\$ 1,439,489	\$ 1,430,413
Construction in Process	15,988,989	15,810,019	32,888	120,498	16,021,877	15,930,517
Buildings	10,135,492	10,425,198	1,644,333	1,704,956	11,779,825	12,130,154
Improvements Other Than Buildings	15,537,371	15,586,492	40,792	37,409	15,578,163	15,623,901
Plant and Equipment			6,432,223	6,876,067	6,432,223	6,876,067
Machinery and Equipment	897,432	937,576	208,518	248,882	1,105,950	1,186,458
Total	\$ 43,706,160	\$ 43,897,085	\$ 8,651,367	\$ 9,280,425	\$ 52,357,527	\$ 53,177,510

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

Long-term Debt. At the end of the current fiscal year, the City had \$2,589,658 in bonds and other long-term obligations.

Outstanding Debt

	Business-type Activities	
	2016	2015
General Obligation Bonds	\$ 31,066	\$ 92,020
Loans Payable	2,558,592	2,568,165
Total	\$ 2,589,658	\$ 2,660,185

Additional information on the City's long-term debt can be found in Note 8 of this report.

Economic Factors

National economic pressures had an impact on the local economy in 2016. Lower oil prices and a series of product recalls 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' sales volume ran below projections, and as a result Polaris Industries continued in its efforts to realign production across all its facilities nationwide to meet lower sales goals. The on-going realignments resulted in no permanent hiring among hourly positions and limited hiring of salaried staff in Roseau. Additionally, 2016 saw additional production capacity in its new production facility in Huntsville, Alabama and the final shift of side by side products from the Roseau production facility to the Mexico and Huntsville facilities. Executives at the Roseau Polaris facility are planning production levels in the Roseau facility for between 1,000-1,300 hourly personnel due to the limited work force 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 extremely 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, 2016**

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 its single seat ATV models. A number of Polaris' newest market entries have been designed and/or manufactured in Roseau. In 2016 Polaris continued to experience challenges in product sales, and hiring has been minimal.

LifeCare Medical Center continues to invest in new improvements to its facility, purchase new equipment and add new staff. In 2016 LifeCare Medical Center and Altru Clinic made significant investments in their facilities and equipment. Altru Clinic and LifeCare MC also added new doctors and staff to the local Roseau clinic to improve care services for local residents.

Agriculture provides additional diversification and stability for the overall local economy. Low commodity prices in 2016 have also caused a slowdown in the farm economy around Roseau.

In 2016, the U.S. Army Corps of Engineers certified 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, 2016**

Exhibit A-1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 839,979	\$ 7,367,624	\$ 8,207,603
Receivables			
Accounts (Net of Allowance)	46,554	634,560	681,114
Delinquent Taxes	74,000		74,000
Special Assessments	676,700	600	677,300
Notes Receivable (Net of Allowance)	1,101,451		1,101,451
Internal Balances	(549,684)	549,684	
Due from Other Governments	225,114		225,114
Inventory		295,833	295,833
Prepaid Expense	51,000		51,000
Restricted: Funded Reserves		214,202	214,202
Restricted: Tenant Security Deposits, Cash		14,923	14,923
Capital Assets			
Land	1,146,876	292,613	1,439,489
Construction in Process	15,988,989	32,888	16,021,877
Buildings	13,608,733	2,424,823	16,033,556
Improvements Other than Buildings	21,797,311	95,875	21,893,186
Plant and Equipment		16,708,038	16,708,038
Machinery and Equipment	2,529,143	709,727	3,238,870
Less: Accumulated Depreciation	(11,364,892)	(11,612,597)	(22,977,489)
Total Capital Assets, Net of Depreciation	<u>43,706,160</u>	<u>8,651,367</u>	<u>52,357,527</u>
TOTAL ASSETS	<u>46,171,274</u>	<u>17,728,793</u>	<u>63,900,067</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	<u>1,461,497</u>	<u>251,081</u>	<u>1,712,578</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,461,497</u>	<u>251,081</u>	<u>1,712,578</u>
LIABILITIES			
Accounts Payable	85,193	357,242	442,435
Accrued Payroll Expenses	5,005	1,592	6,597
Due to Other Governments	4,020	58,524	62,544
Consumer Deposits		48,202	48,202
Accrued Interest Payable		1,769	1,769
Prepaid Rent		753	753
Unearned Revenue		6,072	6,072
Noncurrent Liabilities			
Due Within One Year	42,250	58,701	100,951
Due in More than One Year	<u>2,393,153</u>	<u>3,205,537</u>	<u>5,598,690</u>
TOTAL LIABILITIES	<u>2,529,621</u>	<u>3,738,392</u>	<u>6,268,013</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	<u>286,235</u>	<u>85,274</u>	<u>371,509</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>286,235</u>	<u>85,274</u>	<u>371,509</u>
NET POSITION			
Net Investment in Capital Assets	43,706,160	6,061,709	49,767,869
Restricted for:			
Funded Reserves		214,202	214,202
MHFA - Residual Receipts		8,677	8,677
Economic Development	167,216		167,216
Unrestricted	<u>943,539</u>	<u>7,871,620</u>	<u>8,815,159</u>
TOTAL NET POSITION	<u>\$ 44,816,915</u>	<u>\$ 14,156,208</u>	<u>\$ 58,973,123</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Exhibit A-2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General Government	\$ 461,435	\$ 59,291	\$ 20	\$	\$ (402,124)	\$	\$ (402,124)
Public Safety	1,323,606	82,592	93,124		(1,147,890)		(1,147,890)
Public Works	978,860	23,636		38,533	(916,691)		(916,691)
Culture and Recreation	815,394	12,579	10,001		(792,814)		(792,814)
Economic Development	227,377	54,487	58,845		(114,045)		(114,045)
Airport	153,894	50,052	55,222	238,144	189,524		189,524
Total Governmental Activities	3,960,566	282,637	217,212	276,677	(3,184,040)		(3,184,040)
Business-type Activities:							
Municipal Liquor Store	1,589,355	1,881,596				292,241	292,241
Water	631,871	409,611				(222,260)	(222,260)
Electric	3,780,196	4,172,454				392,258	392,258
Sewer Service	473,035	364,100				(108,935)	(108,935)
Roseau Court Townhomes	218,344	203,503				(14,841)	(14,841)
Garbage	411,233	439,546				28,313	28,313
Total Business-type Activities	7,104,034	7,470,810				366,776	366,776
Total Government	\$ 11,064,600	\$ 7,753,447	\$ 217,212	\$ 276,677	(3,184,040)	366,776	(2,817,264)
			General Revenues:				
			Property Taxes		1,125,249	5,135	1,130,384
			Hotel / Motel Taxes		50,601		50,601
			Franchise Fee		30,679		30,679
			Unrestricted State Aid		667,292		667,292
			Unrestricted Investment Earnings		49,562	2,377	51,939
			Other General Revenue		351,877	741	352,618
			Sale of Capital Asset		1,550		1,550
			Transfers		536,071	(536,071)	
			Total General Revenues and Transfers		2,812,881	(527,818)	2,285,063
			Change in Net Position		(371,159)	(161,042)	(532,201)
			Net Position - January 1		45,188,074	14,317,250	59,505,324
			Net Position - December 31		\$ 44,816,915	\$ 14,156,208	\$ 58,973,123

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

Exhibit A-3

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Investments	\$ 306,818	\$ 335,290	\$	\$ 197,871	\$ 839,979
Receivables					
Accounts	41,245	104		5,205	46,554
Tax Receivable - Delinquent	74,000				74,000
Special Assessments					
Delinquent	44,000				44,000
Noncurrent	632,700				632,700
Notes Receivable	674,521	831,930			1,506,451
Due from Other Funds	23,899				23,899
Due from Other Governments	201,805	23,309			225,114
Prepaid Expense			51,000		51,000
TOTAL ASSETS	<u>\$ 1,998,988</u>	<u>\$ 1,190,633</u>	<u>\$ 51,000</u>	<u>\$ 203,076</u>	<u>\$ 3,443,697</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 56,298	\$ 23,309	\$ 1,998	\$ 3,588	\$ 85,193
Accrued Payroll Expenses	5,005				5,005
Due to Other Funds			549,684	23,899	573,583
Due to Other Governments	4,020				4,020
Total Liabilities	<u>65,323</u>	<u>23,309</u>	<u>551,682</u>	<u>27,487</u>	<u>667,801</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	74,000				74,000
Unavailable Revenue - Notes Receivable	674,521	831,930			1,506,451
Unavailable Revenue - Special Assessments	676,700				676,700
Total Deferred Inflows of Resources	<u>1,425,221</u>	<u>831,930</u>	<u></u>	<u></u>	<u>2,257,151</u>
FUND BALANCES					
Nonspendable for:					
Prepaid			51,000		51,000
Restricted for :					
Economic Development				167,216	167,216
Committed for:					
Economic Development		335,394			335,394
Birding Trail				4,654	4,654
Roseau P.D.				3,719	3,719
Unassigned	508,444		(551,682)		(43,238)
Total Fund Balances	<u>508,444</u>	<u>335,394</u>	<u>(500,682)</u>	<u>175,589</u>	<u>518,745</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,998,988</u>	<u>\$ 1,190,633</u>	<u>\$ 51,000</u>	<u>\$ 203,076</u>	<u>\$ 3,443,697</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Exhibit A-4

Total fund balances - governmental funds	\$ 518,745
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	55,071,052
Less: accumulated depreciation	(11,364,892)
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.	1,461,497
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	(2,266,403)
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.	(286,235)
Compensated absences payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(169,000)
An allowance has been set up for notes receivable in the government-wide financial statements.	(405,000)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>2,257,151</u>
Net position - governmental activities	<u>\$ 44,816,915</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, 2016

Exhibit A-5

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property Taxes	\$ 1,048,618	\$	\$	\$ 66,631	\$ 1,115,249
Hotel / Motel Tax				50,601	50,601
Franchise Fee	30,679				30,679
Special Assessments	107,033				107,033
Licenses and Permits	31,121				31,121
Intergovernmental					
Federal	176,428	43,884			220,312
State	888,504			3,811	892,315
Charges for Services	170,679				170,679
Fines and Forfeitures	20,370				20,370
Interest on Investments	23,232	329			23,561
Miscellaneous	544,176	189,964	22,825	15,001	771,966
Total Revenues	<u>3,040,840</u>	<u>234,177</u>	<u>22,825</u>	<u>136,044</u>	<u>3,433,886</u>
EXPENDITURES					
Current					
General Government	406,889		6,982		413,871
Public Safety	1,010,864			2,580	1,013,444
Public Works	283,259				283,259
Culture and Recreation	494,338			16,935	511,273
Economic Development	24,489	155,410		133,853	313,752
Airport	47,199				47,199
Capital Outlay					
Public Safety	1,318				1,318
Public Works	655,597				655,597
Culture and Recreation	56,380		50,466		106,846
Airport	276,195				276,195
Total Expenditures	<u>3,256,528</u>	<u>155,410</u>	<u>57,448</u>	<u>153,368</u>	<u>3,622,754</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(215,688)</u>	<u>78,767</u>	<u>(34,623)</u>	<u>(17,324)</u>	<u>(188,868)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	536,071	5,132			541,203
Transfers Out	(5,132)				(5,132)
Total Other Financing Sources (Uses)	<u>530,939</u>	<u>5,132</u>			<u>536,071</u>
NET CHANGE IN FUND BALANCES	315,251	83,899	(34,623)	(17,324)	347,203
FUND BALANCE, JANUARY 1	<u>193,193</u>	<u>251,495</u>	<u>(466,059)</u>	<u>192,913</u>	<u>171,542</u>
FUND BALANCE, DECEMBER 31	<u>\$ 508,444</u>	<u>\$ 335,394</u>	<u>\$ (500,682)</u>	<u>\$ 175,589</u>	<u>\$ 518,745</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, 2016**

Exhibit A-6

Total net change in fund balances - governmental funds.	\$ 347,203
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	1,021,060
Depreciation expense	(1,211,985)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(312,551)
Change in net pension liability	(1,399,446)
Change in deferred outflows and inflows of resources related to net pension liability	1,147,060
Change in allowance for doubtful accounts	24,000
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	<u>13,500</u>
Change in net position - governmental activities	<u>\$ (371,159)</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016**

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	\$ 1,270,489	\$ 343,467	\$ 4,875,678	\$ 376,994	\$ 51,875	\$ 449,121	\$ 7,367,624
Accounts Receivable (Net of Allowance)	4,712	45,007	484,246	43,744	2,040	54,811	634,560
Special Assessments Receivable		600					600
Due From Other Funds			549,684				549,684
Inventory	159,263		136,570				295,833
Total Current Assets	<u>1,434,464</u>	<u>389,074</u>	<u>6,046,178</u>	<u>420,738</u>	<u>53,915</u>	<u>503,932</u>	<u>8,848,301</u>
NONCURRENT ASSETS							
Restricted: Funded Reserves					214,202		214,202
Restricted: Tenant Security Deposits, Cash					14,923		14,923
Capital Assets							
Land	20,000	16,250	61,885	119,478	75,000		292,613
Construction in Process	32,888						32,888
Improvements Other than Buildings					95,875		95,875
Buildings					2,424,823		2,424,823
Plant and Equipment		6,872,712	2,745,749	7,089,577			16,708,038
Machinery and Equipment	290,462				49,373	369,892	709,727
Less: accumulated depreciation	(264,098)	(4,205,421)	(2,542,232)	(3,528,163)	(884,945)	(187,738)	(11,612,597)
Total Capital Assets	<u>79,252</u>	<u>2,683,541</u>	<u>265,402</u>	<u>3,680,892</u>	<u>1,760,126</u>	<u>182,154</u>	<u>8,651,367</u>
Total Noncurrent Assets	<u>79,252</u>	<u>2,683,541</u>	<u>265,402</u>	<u>3,680,892</u>	<u>1,989,251</u>	<u>182,154</u>	<u>8,880,492</u>
Total Assets	<u>1,513,716</u>	<u>3,072,615</u>	<u>6,311,580</u>	<u>4,101,630</u>	<u>2,043,166</u>	<u>686,086</u>	<u>17,728,793</u>
DEFERRED OUTFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	64,002	44,308	27,077	44,308		71,386	251,081
Total Deferred Outflows of Resources	<u>64,002</u>	<u>44,308</u>	<u>27,077</u>	<u>44,308</u>		<u>71,386</u>	<u>251,081</u>

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION - Continued
PROPRIETARY FUNDS
DECEMBER 31, 2016

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	3,808	4,193	332,952	2,259	4,924	9,106	357,242
Accrued Expenses	235	923		434			1,592
Due to Other Governments	16,991	637	31,952			8,944	58,524
Consumer Deposits			33,545		14,657		48,202
Interest Payable				153	1,616		1,769
Prepaid Rent					753		753
Unearned Revenue			6,072				6,072
Current Portion - Long Term Liabilities	2,375	4,125	2,750	35,191	10,135	4,125	58,701
Total Current Liabilities	<u>23,409</u>	<u>9,878</u>	<u>407,271</u>	<u>38,037</u>	<u>32,085</u>	<u>22,175</u>	<u>532,855</u>
NONCURRENT LIABILITIES							
Bonds Payable				31,066			31,066
Loans Payable					2,558,592		2,558,592
Compensated Absences	9,500	16,500	11,000	16,500		16,500	70,000
Net Pension Liability	154,108	106,691	65,200	106,691		171,890	604,580
Less: Current Portion of Long Term Liabilities	(2,375)	(4,125)	(2,750)	(35,191)	(10,135)	(4,125)	(58,701)
Total Noncurrent Liabilities	<u>161,233</u>	<u>119,066</u>	<u>73,450</u>	<u>119,066</u>	<u>2,548,457</u>	<u>184,265</u>	<u>3,205,537</u>
Total Liabilities	<u>184,642</u>	<u>128,944</u>	<u>480,721</u>	<u>157,103</u>	<u>2,580,542</u>	<u>206,440</u>	<u>3,738,392</u>
DEFERRED INFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	21,736	15,049	9,195	15,049		24,245	85,274
Total Deferred Inflows of Resources	<u>21,736</u>	<u>15,049</u>	<u>9,195</u>	<u>15,049</u>		<u>24,245</u>	<u>85,274</u>
NET POSITION							
Net Investment in Capital Assets	79,252	2,683,541	265,402	3,649,826	(798,466)	182,154	6,061,709
Restricted for Funded Reserves					214,202		214,202
Restricted for MHFA - Residual Receipts					8,677		8,677
Unrestricted	1,292,088	289,389	5,583,339	323,960	38,211	344,633	7,871,620
Total Net Position	<u>\$ 1,371,340</u>	<u>\$ 2,972,930</u>	<u>\$ 5,848,741</u>	<u>\$ 3,973,786</u>	<u>\$ (537,376)</u>	<u>\$ 526,787</u>	<u>\$ 14,156,208</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Exhibit A-8

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
OPERATING REVENUES							
Sales	\$ 1,881,474	\$	\$	\$	\$	\$	\$ 1,881,474
Cost of Sales	1,351,250						1,351,250
Gross Profit	530,224						530,224
Charges for Services		384,729	4,131,845	361,386		438,912	5,316,872
Other Services		24,882	41,050	2,714	203,503	634	272,783
Total Operating Revenues	530,224	409,611	4,172,895	364,100	203,503	439,546	6,119,879
OPERATING EXPENSES							
Production Expense		146,252	3,150,835				3,297,087
Distribution Expense		27,589	379,887				407,476
General Expense	230,467	122,145	198,973	207,388	135,047	378,582	1,272,602
Depreciation	7,638	335,885	50,501	263,981	65,165	32,651	755,821
Total Operating Expenses	238,105	631,871	3,780,196	471,369	200,212	411,233	5,732,986
Operating Income (Loss)	292,119	(222,260)	392,699	(107,269)	3,291	28,313	386,893
NONOPERATING REVENUE (EXPENSE)							
Property Taxes				5,134			5,134
Interest on Investments					2,377		2,377
Other Income	121					301	422
Interest Expense				(1,665)	(18,132)		(19,797)
Total Nonoperating Revenue (Expense)	121			3,469	(15,755)	301	(11,864)
Net Income (Loss) before Transfers	292,240	(222,260)	392,699	(103,800)	(12,464)	28,614	375,029
TRANSFERS OUT		(100,000)	(300,000)	(100,000)	(36,071)		(536,071)
Change in Net Position	292,240	(322,260)	92,699	(203,800)	(48,535)	28,614	(161,042)
TOTAL NET POSITION, JANUARY 1	1,079,100	3,295,190	5,756,042	4,177,586	(488,841)	498,173	14,317,250
TOTAL NET POSITION, DECEMBER 31	\$ 1,371,340	\$ 2,972,930	\$ 5,848,741	\$ 3,973,786	\$ (537,376)	\$ 526,787	\$ 14,156,208

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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	\$ 1,878,282	\$ 389,880	\$ 4,101,540	\$ 354,607	\$ 202,649	\$ 429,797	\$ 7,356,755
Payments to Suppliers	(1,433,235)	(147,057)	(3,608,489)	(59,664)	(134,362)	(150,712)	(5,533,519)
Payments to Employees	(151,905)	(140,318)	(94,736)	(140,615)		(217,995)	(745,569)
Net Cash Provided by Operating Activities	<u>293,142</u>	<u>102,505</u>	<u>398,315</u>	<u>154,328</u>	<u>68,287</u>	<u>61,090</u>	<u>1,077,667</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Nonoperating Revenue	121			5,134		301	5,556
Transfers to Other Funds		(100,000)	(300,000)	(100,000)	(72,142)		(572,142)
Due From Other Funds			18,127				18,127
Net Cash Provided (Used) by Noncapital Financing Activities	<u>121</u>	<u>(100,000)</u>	<u>(281,873)</u>	<u>(94,866)</u>	<u>(72,142)</u>	<u>301</u>	<u>(548,459)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Payment of Long-Term Debt				(60,954)	(9,573)		(70,527)
Interest on Long-Term Debt				(2,268)	(18,132)		(20,400)
Acquisition and Construction of Capital Assets		(59,456)		(59,459)	(7,850)		(126,765)
Net Cash Used by Capital and Related Financing Activities		<u>(59,456)</u>		<u>(122,681)</u>	<u>(35,555)</u>		<u>(217,692)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Tax and Insurance Escrow, Net - MN Housing					254		254
Deposits into Reserve Accounts - MN Housing					(41,318)		(41,318)
Withdrawals from Reserves - MN Housing					19,450		19,450
Interest Earnings					82		82
Net Cash Used by Investing Activities					<u>(21,532)</u>		<u>(21,532)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>293,263</u>	<u>(56,951)</u>	<u>116,442</u>	<u>(63,219)</u>	<u>(60,942)</u>	<u>61,391</u>	<u>289,984</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<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>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,270,489</u>	<u>\$ 343,467</u>	<u>\$ 4,875,678</u>	<u>\$ 376,994</u>	<u>\$ 66,798</u>	<u>\$ 449,121</u>	<u>\$ 7,382,547</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, 2016

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)	\$ 292,119	\$ (222,260)	\$ 392,699	\$ (107,269)	\$ 3,291	\$ 28,313	\$ 386,893
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Depreciation	7,638	335,885	50,501	263,981	65,165	32,651	755,821
Bad Debt Expense					2,470		2,470
Change in:							
Accounts Receivable	(3,192)	(19,731)	(77,427)	(9,493)	(2,644)	(9,749)	(122,236)
Inventory	(14,369)		(37,666)				(52,035)
Deferred Outflows	(50,223)	(34,769)	(21,248)	(34,769)		(56,018)	(197,027)
Accounts Payable	1,466	3,285	39,948	2,067	685	(1,151)	46,300
Accrued Expenses							
Prepaid Rent					(823)		(823)
Due to Other Governments	(1,245)	284	17,053			4,794	20,886
Other Current Liabilities			2,944		143		3,087
Unearned Revenue			6,072				6,072
Compensated Absences	2,000	(1,000)	500	(1,000)		(3,500)	(3,000)
Net Pension Liability	53,723	37,193	22,729	37,193		59,922	210,760
Deferred Inflows	5,225	3,618	2,210	3,618		5,828	20,499
Total Adjustments	<u>1,023</u>	<u>324,765</u>	<u>5,616</u>	<u>261,597</u>	<u>64,996</u>	<u>32,777</u>	<u>690,774</u>
Net Cash Provided by Operating Activities	<u>\$ 293,142</u>	<u>\$ 102,505</u>	<u>\$ 398,315</u>	<u>\$ 154,328</u>	<u>\$ 68,287</u>	<u>\$ 61,090</u>	<u>\$ 1,077,667</u>

See Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

For financial reporting purposes, the City of Roseau's primary government includes all funds, elected officials, departments, boards, commissions, and authorities that make up the City's legal entity. The City's reporting entity also is comprised of its component units, legally separate organizations for which the City's elected officials are financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there is one organization considered to be a component unit of the City.

BLENDED COMPONENT UNIT – Economic Development Authority

The Authority's governing board is appointed by the government's governing body.

Complete financial statements for the individual component unit may be obtained at the City's administrative office.

Economic Development Authority
121 Center Street East, Suite 202
Roseau, Minnesota 56751

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 financial statements. Revenues are recorded when earned and

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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.

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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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 \$575,385.

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, 2016, and is expected to be taken by December 31, 2017, is considered a current liability and is accrued in the December 31, 2016 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.

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 reports a liability 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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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:

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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2. DEFICIT FUND BALANCE/NET POSITION

Deficit fund balance/net position of individual funds at December 31, 2016, is as follows:

Capital Projects Fund	\$ 500,682
Roseau Court Townhomes	537,376

The deficit of the Capital Projects Fund is expected to be eliminated through receipt of donations or a transfer from another fund. The deficit of the Roseau Court Townhomes is expected to be eliminated upon the forgiveness of \$2,246,824 of mortgage payable in 2023.

NOTE 3. DEPOSITS AND INVESTMENTS

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

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

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

- (a) Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve 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, 2016, the City held no investments.

Custodial Credit Risk – Deposits – The City does not have a formal custodial credit risk policy. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2016, the City was not exposed to custodial credit risk.

NOTE 4. NOTES RECEIVABLE

At December 31, 2016, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$1,506,451. The promissory notes have various maturity dates and interest rates. The provision for uncollectible notes on the statement of net position was \$405,000.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,137,800	\$ 9,076	\$	\$ 1,146,876
Construction In Process	15,810,019	236,707	57,737	15,988,989
Total Capital Assets, Not Being Depreciated	<u>16,947,819</u>	<u>245,783</u>	<u>57,737</u>	<u>17,135,865</u>
Capital Assets, Being Depreciated:				
Buildings	13,560,086	48,647		13,608,733
Improvements Other Than Buildings	21,127,822	669,489		21,797,311
Machinery and Equipment	2,414,265	114,878		2,529,143
Total Capital Assets, Being Depreciated	<u>37,102,173</u>	<u>833,014</u>		<u>37,935,187</u>
Less: Accumulated Depreciation For:				
Buildings	3,134,888	338,353		3,473,241
Improvements Other Than Buildings	5,541,330	718,610		6,259,940
Machinery and Equipment	1,476,689	155,022		1,631,711
Total Accumulated Depreciation	<u>10,152,907</u>	<u>1,211,985</u>		<u>11,364,892</u>
Total Capital Assets, Being Depreciated, Net	<u>26,949,266</u>	<u>(378,971)</u>		<u>26,570,295</u>
Governmental Activities Capital Assets, Net	<u>\$ 43,897,085</u>	<u>\$ (133,188)</u>	<u>\$ 57,737</u>	<u>\$ 43,706,160</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 292,613	\$	\$	\$ 292,613
Construction In Process	120,498		87,610	32,888
Total Capital Assets, Not Being Depreciated	<u>413,111</u>		<u>87,610</u>	<u>325,501</u>
Capital Assets, Being Depreciated:				
Improvements Other Than Buildings	88,025	7,850		95,875
Buildings	2,424,823			2,424,823
Plant and Equipment	16,501,515	206,523		16,708,038
Machinery and Equipment	709,727			709,727
Total Capital Assets, Being Depreciated	<u>19,724,090</u>	<u>214,373</u>		<u>19,938,463</u>
Less: Accumulated Depreciation For:				
Improvements Other Than Buildings	50,616	4,467		55,083
Buildings	719,867	60,623		780,490
Plant and Equipment	9,625,448	650,367		10,275,815
Machinery and Equipment	460,845	40,364		501,209
Total Accumulated Depreciation	<u>10,856,776</u>	<u>755,821</u>		<u>11,612,597</u>
Total Capital Assets, Being Depreciated, Net	<u>8,867,314</u>	<u>(541,448)</u>		<u>8,325,866</u>
Business-type Activities Capital Assets, Net	<u>\$ 9,280,425</u>	<u>\$ (541,448)</u>	<u>\$ 87,610</u>	<u>\$ 8,651,367</u>

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Governmental Activities:	
General Government	\$ 39,978
Public Safety	89,127
Public Works, including depreciation of general infrastructure assets	673,209
Culture and Recreation	313,108
Economic Development	5,625
Airport	90,938
Total Depreciation Expenses - Governmental Activities	<u>\$ 1,211,985</u>
Business-type Activities:	
Municipal Liquor Store	\$ 7,638
Water	335,885
Electric	50,501
Sewer Service	263,981
Roseau Court Townhomes	65,165
Garbage Collections	32,651
Total Depreciation Expense - Business-type Activities	<u>\$ 755,821</u>

NOTE 6. CONTINGENT LIABILITIES

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2016, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

NOTE 7. 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 cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (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 Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan 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 Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan, 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 Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

General Employees Plan Benefits

General Employees Plan 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 accrual 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.

Police and Fire Plan Benefits

Benefits for Police and Fire Plan 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 Police and Fire Plan 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 Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

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

General Employees Fund Contributions

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 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$68,194. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$67,860. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2016, the City reported a liability of \$1,185,448 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6,000,000 to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$15,492. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

June 30, 2016, the City's proportion was 0.0146% which was a decrease of 0.0003% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$136,358 for its proportionate share of General Employee Plan's pension expense. In addition, the City recognized an additional \$4,619 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6,000,000 to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 96,823
Difference between projected and actual investment earnings	226,106	
Changes in actuarial assumptions	232,113	
Changes in proportion		70,380
Contributions paid to PERA subsequent to the measurement date	34,097	
Total	\$ 492,316	\$ 167,203

\$34,097 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 ended December 31, 2017. 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
2017	\$ 68,620
2018	68,620
2019	110,956
2020	42,820

At December 31, 2016, the City reported a liability of \$1,685,533 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0420% which was a decrease of 0.0010% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$290,149 for its proportionate share of Police and Fire Plan's pension expense. The City also recognized \$3,780 for the year ended December 31, 2016 as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9,000,000 to the Police and Fire Fund each year, starting in fiscal year 2014.

At December 31, 2016, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 194,836
Difference between projected and actual investment earnings	258,709	
Changes in actuarial assumptions	927,623	
Changes in proportion		9,470
Contributions paid to PERA subsequent to the measurement date	33,930	
Total	\$ 1,220,262	\$ 204,306

\$33,930 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, 2017. 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
2017	\$ 211,493
2018	211,493
2019	211,492
2020	190,210
2021	157,338

Actuarial Assumptions – The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 for the General Employees Plan and RP 2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period of July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric real rates of return for each major asset class are summarized in the following table:

<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 in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ending June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

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 one percentage point lower or one percentage point higher than the current discount rate:

		City Proportionate Share of NPL		
		1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
GERF	\$	1,683,687	\$ 1,185,448	\$ 775,034

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

City Proportionate Share of NPL			
	1% Decrease (4.6%)	Current (5.6%)	1% Increase (7.6%)
PEPFF	\$ 2,359,523	\$ 1,685,533	\$ 1,134,832

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.

NOTE 8. 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:

Purpose	Interest Rates	Maturity Dates	Amount
Business-type Activities	2.95%	2017	\$ 31,066

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2017	\$ 31,066	\$ 458

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%	2017/35	\$ 2,558,592
Lender	Interest Rates	Maturity Dates	Amount
MN Housing Finance Agency	5.72%	2017/35	\$ 311,768
MN Housing Finance Agency (*)		2023	2,246,824
			\$ 2,558,592

* 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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2017	\$ 10,135	\$ 17,570
2018	10,730	16,975
2019	11,360	16,345
2020	12,028	15,678
2021	12,734	14,971
2022-2026	75,805	62,723
2027-2031	100,833	37,693
2032-2035	78,143	7,283
	<u>\$ 311,768</u>	<u>\$ 189,238</u>

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Compensated Absences	\$ 182,500	\$ 90,382	\$ 103,882	\$ 169,000	\$ 42,250
Governmental Activity Long-term Liabilities	<u>\$ 182,500</u>	<u>\$ 90,382</u>	<u>\$ 103,882</u>	<u>\$ 169,000</u>	<u>\$ 42,250</u>
<u>Business-type Activities</u>					
Bonds Payable					
General Obligation Bonds	\$ 92,020	\$	\$ 60,954	\$ 31,066	\$ 31,066
Other Long-term Obligations					
Loans Payable	2,568,165		9,573	2,558,592	10,135
Compensated Absences	73,000	50,222	53,222	70,000	17,500
Business-type Activity Long-term Liabilities	<u>\$ 2,733,185</u>	<u>\$ 50,222</u>	<u>\$ 123,749</u>	<u>\$ 2,659,658</u>	<u>\$ 58,701</u>

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

NOTE 9. 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, 2016, the aggregate principal amount payable of the Series 2006 was \$2,974,695.

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, 2016, the aggregate principal amount payable of the one series issued was \$1,528,168.

**CITY OF ROSEAU, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016**

NOTE 10. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2016, is as follows:

Due from / to other funds:

Receivable	Payable	Amount
Electric	Capital Projects	\$ 549,684
General	Nonmajor Governmental	23,899
		<u>\$ 573,583</u>

The amounts payable are to cover cash deficits on December 31, 2016.

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	Electric	\$ 300,000
General	Sewer	100,000
General	Water	100,000
General	Roseau Court Townhomes	36,071
Community and Economic Development	General	5,132
		<u>\$ 541,203</u>

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

NOTE 11. DEFERRED COMPENSATION PLAN AND TRUST

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

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

NOTE 12. RISK MANAGEMENT

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

The City's municipal general liability policy is on a claims-made basis with an each occurrence deductible of \$500 and provides the annual Minnesota Statutory limit of \$2,000,000 per occurrence in liability coverage. For the year ending December 31, 2016, premiums of Municipal Liability totaled \$10,003, Property coverage totaled \$38,437, Automobile coverage totaled \$11,067, and Liquor Liability totaled \$2,160. 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, 2016 totaled \$7,709.

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 2015. The City may receive a dividend each year from the League of Minnesota Cities. There was no dividend received for Workers' Compensation in 2016, however the Property and Casualty dividend received was \$59,835. The City has elected to participate in the

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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 2016 and 2015 were \$0 and \$0, respectively. There was \$0 paid under errors and omissions claims for the year 2015 and \$0 paid in 2016. Settled claims have not exceeded the commercial coverage limit in any of the past three fiscal years. There were no significant reductions in the City's insurance coverage from the year 2015.

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, 2016, was \$53,907 and \$0 for the Volunteer Accident Plan, as was provided at no charge in 2016. Total liability claims for workers' compensation paid in 2016 and 2015 were \$12,461.37 and \$7,703.90, respectively.

NOTE 13. SIGNIFICANT CUSTOMER

The City has a significant customer, which represents about 22% of the water utility billings.

NOTE 14. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

NOTE 15. NEW PRONOUNCEMENTS

GASB Statement No. 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. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. 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, 2016**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Property Taxes	\$ 1,044,242	\$ 1,048,618	\$ 4,376
Franchise Fee	45,000	30,679	(14,321)
Special Assessments	75,000	107,033	32,033
Licenses and Permits	33,590	31,121	(2,469)
Intergovernmental			
Federal		176,428	176,428
State			
Local Government Aid	662,388	662,388	
Market Value Credit		84	84
Police Aid	50,000	46,978	(3,022)
Fire Aid	35,000	41,244	6,244
PERA Rate Increase Aid	4,820	4,820	
Aviation Maintenance Aid	35,876	118,028	82,152
Other State Grants	86,000	14,962	(71,038)
	<u>874,084</u>	<u>1,064,932</u>	<u>190,848</u>
Charges for Services			
General Government	45,485	32,605	(12,880)
Public Safety	59,423	62,222	2,799
Culture and Recreation	56,000	60,235	4,235
Airport	14,500	15,617	1,117
	<u>175,408</u>	<u>170,679</u>	<u>(4,729)</u>
Fines and Forfeitures	16,750	20,370	3,620
Miscellaneous			
Interest on Investments	18,000	23,232	5,232
Contributions	5,000	2,345	(2,655)
Property Sales	1,000	1,550	550
Reimbursements	40,000	538,174	498,174
Other Receipts	2,000	2,107	107
	<u>66,000</u>	<u>567,408</u>	<u>501,408</u>
Total Revenues	<u>2,330,074</u>	<u>3,040,840</u>	<u>710,766</u>
EXPENDITURES			
General Government			
Mayor and Council	33,970	30,641	3,329
Finance / Administration	85,058	73,372	11,686
Independent Auditors	12,000	12,079	(79)
Elections	3,700	6,510	(2,810)
Assessor	15,000	14,155	845
Legal Services	63,436	61,876	1,560
Planning, Zoning, Economic Development	122,852	121,361	1,491
Municipal Building	71,901	46,161	25,740
Miscellaneous	49,400	40,734	8,666
	<u>457,317</u>	<u>406,889</u>	<u>50,428</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, 2016

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES - Continued			
Public Safety			
Police	770,442	749,908	20,534
Fire	226,968	156,673	70,295
Building Inspector	104,571	96,604	7,967
Emergency Services	9,450	7,679	1,771
Capital Outlay		1,318	(1,318)
	<u>1,111,431</u>	<u>1,012,182</u>	<u>99,249</u>
Public Works			
Streets and Highways	361,793	229,195	132,598
Snow and Ice Removal	34,025	10,830	23,195
Street Lighting and Signals	43,860	43,234	626
Capital Outlay	800,000	655,597	144,403
	<u>1,239,678</u>	<u>938,856</u>	<u>300,822</u>
Culture and Recreation			
Library and Museum	101,487	90,166	11,321
Parks and Recreation	396,921	404,172	(7,251)
Capital Outlay - Parks and Recreation	90,000	56,380	33,620
	<u>588,408</u>	<u>550,718</u>	<u>37,690</u>
Economic Development			
Current Expenditures	48,027	24,489	23,538
	<u>48,027</u>	<u>24,489</u>	<u>23,538</u>
Airport			
Current Expenditures	54,090	47,199	6,891
Capital Outlay	80,000	276,195	(196,195)
	<u>134,090</u>	<u>323,394</u>	<u>(189,304)</u>
Total Expenditures	<u>3,578,951</u>	<u>3,256,528</u>	<u>322,423</u>
REVENUES UNDER EXPENDITURES	<u>(1,248,877)</u>	<u>(215,688)</u>	<u>1,033,189</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	36,000	536,071	500,071
Transfers Out	(5,000)	(5,132)	(132)
Total Other Financing Sources (Uses)	<u>31,000</u>	<u>530,939</u>	<u>499,939</u>
NET CHANGE IN FUND BALANCE	(1,217,877)	315,251	1,533,128
FUND BALANCE, JANUARY 1	<u>193,193</u>	<u>193,193</u>	
FUND BALANCE, DECEMBER 31	<u>\$ (1,024,684)</u>	<u>\$ 508,444</u>	<u>\$ 1,533,128</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, 2016**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Intergovernmental Federal	\$	\$ 43,884	\$ 43,884
Interest on Investments		329	329
Program Income	1,000	176,044	175,044
Contributions		405	405
Other Receipts		13,515	13,515
	<u>1,000</u>	<u>234,177</u>	<u>233,177</u>
EXPENDITURES			
Economic Development		<u>155,410</u>	<u>(155,410)</u>
		<u>155,410</u>	<u>(155,410)</u>
REVENUES OVER EXPENDITURES			
	<u>1,000</u>	<u>78,767</u>	<u>77,767</u>
OTHER FINANCING SOURCES			
Transfers In		<u>5,132</u>	<u>5,132</u>
		<u>5,132</u>	<u>5,132</u>
NET CHANGE IN FUND BALANCE			
	1,000	83,899	82,899
FUND BALANCE, JANUARY 1			
	<u>251,495</u>	<u>251,495</u>	
FUND BALANCE, DECEMBER 31			
	<u>\$ 252,495</u>	<u>\$ 335,394</u>	<u>\$ 82,899</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 %
	2016	68,194	68,194		909,571	7.50
PEPFF	2015	\$ 65,215	\$ 65,215	\$	\$ 402,563	16.20 %
	2016	67,860	67,860		418,888	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

	Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered-Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	2015	0.0149 %	\$ 772,196	\$	\$ 772,196	\$ 879,546	87.79 %	78.19 %
	2016	0.0146	1,185,448	15,492	1,200,940	893,266	134.44	68.90
PEPFF	2015	0.0430 %	\$ 488,581	\$	\$ 488,581	\$ 398,812	122.51 %	86.61 %
	2016	0.0420	1,685,533		1,685,533	410,725	410.38	63.90

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, 2016**

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 2016.

NOTE 2. EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

The community and economic development fund had \$155,410 of expenditures in excess of budget for the year ended December 31, 2016.

No remedial action is required for this expense.

NOTE 3. DEFINED BENEFIT PLANS

PERA

General Employees Fund

2016 Changes

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate has changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. The assumed investment return was changed from 7.9% to 7.5%. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions: On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

CITY OF ROSEAU, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2016

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	\$ 115,228	\$ 74,270	\$ 4,654	\$ 3,719	\$ 197,871
Accounts Receivable	5,205				5,205
TOTAL ASSETS	\$ 120,433	\$ 74,270	\$ 4,654	\$ 3,719	\$ 203,076
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 3,588	\$	\$	\$	\$ 3,588
Due to Other Funds		23,899			23,899
Total Liabilities	3,588	23,899			27,487
Fund Balances					
Restricted for					
Economic Development	116,845	50,371			167,216
Committed for Birding Trail			4,654		4,654
Committed for Public Safety				3,719	3,719
Total Fund Balances	116,845	50,371	4,654	3,719	175,589
TOTAL LIABILITIES AND FUND BALANCES	\$ 120,433	\$ 74,270	\$ 4,654	\$ 3,719	\$ 203,076

**CITY OF ROSEAU, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

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	\$	\$ 66,631	\$	\$	\$ 66,631
Hotel / Motel Tax	50,601				50,601
Intergovernmental - State	3,811				3,811
Miscellaneous					
Contributions			10,001	5,000	15,001
Total Revenues	<u>54,412</u>	<u>66,631</u>	<u>10,001</u>	<u>5,000</u>	<u>136,044</u>
EXPENDITURES					
Current					
Police				2,580	2,580
Culture and Recreation			16,935		16,935
Economic Development	71,310	62,543			133,853
Total Expenditures	<u>71,310</u>	<u>62,543</u>	<u>16,935</u>	<u>2,580</u>	<u>153,368</u>
NET CHANGE IN FUND BALANCES					
	(16,898)	4,088	(6,934)	2,420	(17,324)
FUND BALANCE, JANUARY 1					
	<u>133,743</u>	<u>46,283</u>	<u>11,588</u>	<u>1,299</u>	<u>192,913</u>
FUND BALANCE, DECEMBER 31					
	<u>\$ 116,845</u>	<u>\$ 50,371</u>	<u>\$ 4,654</u>	<u>\$ 3,719</u>	<u>\$ 175,589</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Ending Balance</u>
Governmental Funds						
General	\$ 193,193	\$ 3,040,840	\$ 3,256,528	\$ 536,071	\$ 5,132	\$ 508,444
Special Revenue						
Community and Economic Development	251,495	234,177	155,410	5,132		335,394
Lodging Tax	133,743	54,412	71,310			116,845
T.I.F.	46,283	66,631	62,543			50,371
Pine To Prairie Birding Trail	11,588	10,001	16,935			4,654
Roseau PD	1,299	5,000	2,580			3,719
Capital Projects	<u>(466,059)</u>	<u>22,825</u>	<u>57,448</u>			<u>(500,682)</u>
Total Governmental Funds	<u>171,542</u>	<u>3,433,886</u>	<u>3,622,754</u>	<u>541,203</u>	<u>5,132</u>	<u>518,745</u>
Proprietary Funds						
Municipal Liquor Store	1,079,100	1,881,595	1,589,355			1,371,340
Water	3,295,190	409,611	631,871		100,000	2,972,930
Electric	5,756,042	4,172,895	3,780,196		300,000	5,848,741
Sewer Service	4,177,586	369,234	473,034		100,000	3,973,786
Roseau Court Townhomes	(488,841)	205,880	218,344		36,071	(537,376)
Garbage Collection	<u>498,173</u>	<u>439,847</u>	<u>411,233</u>			<u>526,787</u>
Total Proprietary Funds	<u>14,317,250</u>	<u>7,479,062</u>	<u>7,104,033</u>		<u>536,071</u>	<u>14,156,208</u>
Total Primary Government	<u>\$ 14,488,792</u>	<u>\$ 10,912,948</u>	<u>\$ 10,726,787</u>	<u>\$ 541,203</u>	<u>\$ 541,203</u>	<u>\$ 14,674,953</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2016**

	Interest Rate	Date of Issue	Maturity Date	Amount of Issue	Balance 12/31/2015	Issued 2016	Retired 2016	Balance 12/31/2016	Principal 2017	Interest 2017
BOND INDEBTEDNESS										
General Obligation Bonds										
1996 PFA	2.95%	11/1/1995	2/20/2017	950,000	\$ 92,020	\$	\$ 60,954	\$ 31,066	\$ 31,066	\$ 458
Total Bonds					<u>92,020</u>		<u>60,954</u>	<u>31,066</u>	<u>31,066</u>	<u>458</u>
Loans										
MHFA Flood EDHC Loan	0.0%	8/13/2003	8/13/2023	1,246,824	1,246,824			1,246,824		
MHFA - POPR Loan	0.0%	8/13/2003	8/13/2023	1,000,000	1,000,000			1,000,000		
Mortgage Note	5.72%	8/1/2004	7/1/2035	396,923	321,341		9,573	311,768	10,135	17,570
Total					<u>2,568,165</u>		<u>9,573</u>	<u>2,558,592</u>	<u>10,135</u>	<u>17,570</u>
Total Indebtedness					<u>\$ 2,660,185</u>	<u>\$</u>	<u>\$ 70,527</u>	<u>\$ 2,589,658</u>	<u>\$ 41,201</u>	<u>\$ 18,028</u>

This page intentionally left blank



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, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2017. 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 black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

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

March 29, 2017

This page intentionally left blank



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, 2016, 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, 2017. 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 as item 2016-001 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 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, 2017

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

2016-001 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, 2016, 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.

Views of Responsible Officials and Planned Corrective Actions

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

2016-001 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