

**CITY OF PERHAM
PERHAM, MINNESOTA**

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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CITY OF PERHAM, MINNESOTA
CITY OFFICIALS
YEAR ENDED DECEMBER 31, 2013

Mayor	Timothy Meehl
Councilman	James Johnson
Councilman	Fred Lehmkuhl
Councilman	Harriet Mattfeld
Councilman	Eric Spencer
City Manager	Kelcey Klemm
Finance Officer	Patti Stokke



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Perham
Perham, 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 Perham, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements. We were not engaged to audit the financial statements of the discretely presented component units. These financial statements 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. Because of the matter described in the "Basis for Disclaimer Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the discretely presented component units.

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

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

Basis for Disclaimer Opinion on the Discretely Presented Component Units

The financial statements of the discretely presented component units (Perham Area Community Center and Perham Golf Course) have not been audited, and we were not engaged to audit the discretely presented component units as part of our audit of the City's basic financial statements.

Disclaimer Opinion

Because of the significance of the matter described in the "Basis for Disclaimer Opinion" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component units of the City of Perham, Minnesota. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Perham, Minnesota, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the City elected to report the TIF funds as one fund for financial statement reporting in the current year. The TIF funds were previously reported separately on the financial statements.

As discussed in Note 1 and 3 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 65, "Items Previously Reported as Assets and Liabilities", as of and for the year ended December 31, 2013.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

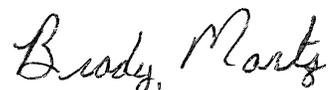
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Perham, Minnesota's basic financial statements as a whole. The combining nonmajor fund financial statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2014, on our consideration of the City of Perham, Minnesota'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 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 Perham, Minnesota's internal control over financial reporting and compliance.



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

June 19, 2014

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

As management of the City of Perham, we offer readers of the City of Perham's financial statements this narrative overview and analysis of the financial activities of the City of Perham for the fiscal year ended December 31, 2013.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$37,083,195 (net position). Of this amount, \$5,990,872 may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$685,561, or 43% of the total general fund expenditures, an increase of \$121,386 over the year ended 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development, and airport. The business-type activities of the City include, liquor, gas, sewer and wastewater, water, and recycling.

The government-wide financial statements include not only the City of Perham itself (known as the *primary government*), but also a legally separate Community Center and a legally separate Golf Course for which the City of Perham is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. Complete financial statements for the individual component units may be obtained at the entity's administrative office.

Perham Area Community Center
620 Third Avenue Southeast
Perham, Minnesota 56573

Perham Lakeside Golf Club
2727 450th Street
Perham, Minnesota 56573

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.

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

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 27 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 general, Economic Development Revolving Loan, 1996 IRP loan program, 2009 G.O. improvement bonds, 2012A G.O. refunding bonds, and 2013 Improvement Project, all of which are considered major funds. Data from the other 21 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 the major special revenue fund to demonstrate compliance with this budget.

Proprietary Funds. The City maintains five different types of 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, gas, sewer and wastewater, water, and recycling.

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 the liquor operations, gas, sewer and wastewater, and water, all of which are considered major funds.

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.

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

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 \$37,083,195 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 12,743,201	\$ 13,386,434	\$ 5,739,704	\$ 5,671,755	\$ 18,482,905	\$ 19,058,189
Capital Assets	<u>20,469,780</u>	<u>20,212,785</u>	<u>22,643,838</u>	<u>17,873,197</u>	<u>43,113,618</u>	<u>38,085,982</u>
Total Assets	<u>33,212,981</u>	<u>33,599,219</u>	<u>28,383,542</u>	<u>23,544,952</u>	<u>61,596,523</u>	<u>57,144,171</u>
Long-term Liabilities	12,496,471	13,833,617	10,213,443	8,116,942	22,709,914	21,950,559
Other Liabilities	<u>300,183</u>	<u>396,058</u>	<u>1,503,231</u>	<u>1,665,440</u>	<u>1,803,414</u>	<u>2,061,498</u>
Total Liabilities	<u>12,796,654</u>	<u>14,229,675</u>	<u>11,716,674</u>	<u>9,782,382</u>	<u>24,513,328</u>	<u>24,012,057</u>
Net Position						
Net Investment in Capital						
Assets	9,900,494	7,445,569	12,493,396	9,821,000	22,393,890	17,266,569
Restricted	8,071,579	9,455,698	626,854	376,435	8,698,433	9,832,133
Unrestricted	<u>2,444,254</u>	<u>2,468,277</u>	<u>3,546,618</u>	<u>3,565,135</u>	<u>5,990,872</u>	<u>6,033,412</u>
Total Net Position	<u>\$ 20,416,327</u>	<u>\$ 19,369,544</u>	<u>\$ 16,666,868</u>	<u>\$ 13,762,570</u>	<u>\$ 37,083,195</u>	<u>\$ 33,132,114</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

The City's investment in capital assets represents capital assets (e.g., land, construction in process, buildings, improvements other than buildings, machinery and equipment, general plant and system, furniture and fixtures), less any related debt used to acquire assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues						
Charges for Services	\$ 590,664	\$ 516,047	\$ 12,488,037	\$ 10,534,547	\$ 13,078,701	\$ 11,050,594
Operating Grants and Contributions	431,609	605,364			431,609	605,364
Capital Grants and Contributions	688,378	1,967,265	2,022,071	398,929	2,710,449	2,366,194
General Revenues						
Taxes	1,744,914	1,797,340			1,744,914	1,797,340
Unrestricted State Aid	460,341	460,341	316,522	400,812	776,863	861,153
Unrestricted Investment Earnings	185,421	214,442	27,996	25,436	213,417	239,878
Gain on Sale of Capital Assets	163,073	12,999	46,453	30,180	209,526	43,179
Other General Revenue	419,561	391,306			419,561	391,306
Total Revenues	4,683,961	5,965,104	14,901,079	11,389,904	19,585,040	17,355,008
Expenses						
General Government	487,892	469,669			487,892	469,669
Public Safety	925,134	822,308			925,134	822,308
Public Works	1,072,637	1,317,453			1,072,637	1,317,453
Culture and Recreation	571,534	547,529			571,534	547,529
Economic Development	458,440	620,618			458,440	620,618
Airport	130,414	140,745			130,414	140,745
Interest on Long-term Debt	334,413	458,551			334,413	458,551
Municipal Liquor			2,577,780	2,436,976	2,577,780	2,436,976
Gas			6,876,677	5,710,730	6,876,677	5,710,730
Sewer and Wastewater			967,323	1,021,950	967,323	1,021,950
Water			676,193	477,500	676,193	477,500
Recycling			71,456	63,537	71,456	63,537
Total Expenses	3,980,464	4,376,873	11,169,429	9,710,693	15,149,893	14,087,566
Change in Net Position Before Transfers	703,497	1,588,231	3,731,650	1,679,211	4,435,147	3,267,442
Transfers	487,877	(102,715)	(487,877)	102,715		
Change in Net Position	1,191,374	1,485,516	3,243,773	1,781,926	4,435,147	3,267,442
Net Position - January 1 as Previously Stated	19,369,544	17,884,028	13,762,570	11,980,644	33,132,114	29,864,672
Adjustment	(144,591)		(339,475)		(484,066)	
Net Position - January 1, Restated	19,224,953	17,884,028	13,423,095	11,980,644	32,648,048	29,864,672
Net Position - December 31	\$ 20,416,327	\$ 19,369,544	\$ 16,666,868	\$ 13,762,570	\$ 37,083,195	\$ 33,132,114

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

Governmental activities. Governmental activities increased the City's net position by \$1,191,374. A key element of the increase is as follows:

- Capital Outlays less depreciation and the reduction of debt

Business-type activities. Business-type activities increased the City's net position by \$3,243,773. Key elements of this increase are as follows:

- The gas and liquor store funds increased due to operating revenues exceeding expenditures
- The sewer and wastewater fund increased due to an EDA wastewater treatment plant grant and Minnesota PFA WIF grant

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, unreserved 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 (Restated)		Increase (Decrease)	Percentage Increase (Decrease)
	12/31/2013	12/31/2012		
Governmental Funds				
General Fund	\$ 685,561	\$ 564,175	\$ 121,386	22%
Economic Development				
Revolving Loan	1,928,855	1,929,068	(213)	0%
1996 IRP Loan Program	2,163,820	2,005,611	158,209	8%
2009 G.O. Improvement Bonds	173,755	376,977	(203,222)	-54%
2012A G.O. Refunding Bonds	821,855	2,200,177	(1,378,322)	-63%
2013 Improvement Project	170,413	(2,436)	172,849	100%
Proprietary Funds				
Gas	2,340,995	1,875,489	465,506	25%
Sewer and Wastewater	8,113,404	5,532,414	2,580,990	47%
Water	4,673,136	4,663,987	9,149	0%
Municipal Liquor	1,424,629	1,246,102	178,527	14%

- The general fund increased as budgeted and due to the sale of land.
- The 1996 IRP loan program fund increased due to a reduction in the allowance for doubtful loans.
- The 2009 G.O. improvement bonds decreased due to a transfer of the 2011 levy to the correct debt service fund (2009B G.O. Refunding bond).
- The 2012A G.O. refunding bonds decreased due to the city paying on the bond.
- The gas fund and liquor store fund increased due to operating revenues exceeding expenditures.
- The Sewer and Wastewater fund increased due to an EDA and WIF wastewater treatment plant grant.

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

General Fund Budgetary Highlights

During the year the City amended the budget to reflect contributions and transfers needed during the year.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2013, amounts to \$43,113,618 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, improvements other than buildings (streets, storm sewer, distribution system, and other infrastructure), and machinery and equipment.

**Capital Assets
(Net of Depreciation)**

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Land	\$ 600,524	\$ 600,524	\$ 1,548,222	\$ 1,580,622	\$ 2,148,746	\$ 2,181,146
Construction In Process	919,905	454,737		964,150	919,905	1,418,887
Buildings	3,070,510	3,177,341	837,179	861,900	3,907,689	4,039,241
Improvements Other Than Buildings	13,727,031	13,691,668	19,795,717	14,025,347	33,522,748	27,717,015
Machinery and Equipment	2,151,810	2,288,515	462,720	441,178	2,614,530	2,729,693
Total	\$ 20,469,780	\$ 20,212,785	\$ 22,643,838	\$ 17,873,197	\$ 43,113,618	\$ 38,085,982

Major capital assets events during the current fiscal year included the following:

- Construction in progress projects for street improvements and the wastewater facilities expansion project.

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

Long-term Liabilities. At the end of the current fiscal year, the City had \$22,613,571 in bonds and other long-term obligations.

Outstanding Debt

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ 10,962,500	\$ 12,203,800	\$ 620,000	\$ 755,000	\$ 11,582,500	\$ 12,958,800
General Obligation Revenue Bonds	635,000	755,000	5,308,246	3,087,000	5,943,246	3,842,000
Revenue Bonds			3,470,000	3,630,000	3,470,000	3,630,000
Loans Payable	865,629	929,333	196,234	233,984	1,061,863	1,163,317
Lease/Purchase Agreement			555,962	685,688	555,962	685,688
Total	\$ 12,463,129	\$ 13,888,133	\$ 10,150,442	\$ 8,391,672	\$ 22,613,571	\$ 22,279,805

Additional information on the City's long-term debt can be found in Note 10 of this report.

Economic Factors

The City has been experiencing growth in the commercial and industrial sectors creating the need for improvements of wastewater treatment facilities, storm sewer infrastructure, and water/wastewater/gas supply extensions.

The City began a wastewater treatment expansion project in 2012. The City received Federal EDA Grant funds of \$2,421,000 to assist with the cost of this project the remainder of the project will be financed through Minnesota Public Facilities Authority via a WIF Grant in the amount of \$713,658 and a Clean Water SRF Bond Loan. Rates have been adjusted to accommodate the debt necessary for the project. Water and wastewater capacity has been improved greatly over the past few years and will increase with this project. The City will need to continue to stay ahead of growth of its largest customers and that of the residential development as well.

The liquor fund has again experienced increased revenues attributed to a larger customer base, a wide variety of inventory, competitive pricing, and its location with highway exposure.

The gas fund has proven profitable and the City continues to explore future growth opportunities. Associated debt may be necessary if such expansions are found to be financially feasible.

Generally, the economic conditions of the community are stable. The city has experienced major additions in both housing and industry. The 2013 building permits showed significant additions. Residential permits totaled over \$4,763,000 with major developments, housing and apartment units. Commercial permits totaled over \$40,146,000 with major industrial additions leading to an increase of job growth. Job growth is steadily increasing. Property valuations are remaining steady. Future years will require additional bonding and construction projects related to replacing and improving existing infrastructure and utility extensions to keep pace with the community's continued industrial, commercial, and residential growth.

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 City's Finance Officer, City of Perham, 125 Second Avenue N.E., P.O. Box 130, Perham, MN 56573.

**CITY OF PERHAM, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Exhibit A-1

	Primary Government			Component Units (UNAUDITED)	
	Governmental Activities	Business-type Activities	Total	Perham Area Community Center	Perham Golf Course
ASSETS					
Cash and Investments	\$ 6,483,394	\$ 2,969,418	\$ 9,452,812	\$ 514,620	\$ 3,936
Cash with Fiscal Agent	818,900		818,900		
Receivables					
Accounts (Net of Allowance)	8,540	1,194,330	1,202,870	40,136	32,071
Interest Receivable	9,978		9,978		
Current Taxes	23,841		23,841		
Delinquent Taxes	19,988		19,988		
Special Assessments	3,681,887	8,452	3,690,339		
Notes Receivable (Net of Allowance)	1,918,826	61,572	1,980,398		
Internal Balances	(222,153)	222,153			
Due from Other Governments		359,595	359,595		
Inventory		297,330	297,330	886	10,159
Restricted Cash:					
Bond Covenants		626,854	626,854		
Deferred Charges				1,321	
Capital Assets					
Land	600,524	1,548,222	2,148,746	41,130	
Construction In Process	919,905		919,905		
Buildings	4,867,102	1,002,850	5,869,952	2,840,343	
Improvements Other than Buildings	17,782,274	26,688,535	44,470,809		
Machinery and Equipment	3,564,755	1,437,132	5,001,887	494,709	963,141
Less: Accumulated Depreciation	(7,264,780)	(8,032,901)	(15,297,681)	(1,775,065)	(557,044)
Total Capital Assets, Net of Depreciation	<u>20,469,780</u>	<u>22,643,838</u>	<u>43,113,618</u>	<u>1,601,117</u>	<u>406,097</u>
TOTAL ASSETS	<u>33,212,981</u>	<u>28,383,542</u>	<u>61,596,523</u>	<u>2,158,080</u>	<u>452,263</u>
LIABILITIES					
Accounts Payable	165,648	1,365,295	1,530,943	16,425	10,906
Accrued Payroll	18,263	13,535	31,798	27,809	
Revolving Line of Credit					174,209
Consumer Deposits		57,300	57,300		
Unearned Revenue		4,311	4,311	144,397	1,315
Accrued Interest Payable	116,272	62,790	179,062		
Noncurrent Liabilities					
Due Within One Year	1,878,196	984,870	2,863,066		20,124
Due in More than One Year	<u>10,618,275</u>	<u>9,228,573</u>	<u>19,846,848</u>		<u>232,257</u>
TOTAL LIABILITIES	<u>12,796,654</u>	<u>11,716,674</u>	<u>24,513,328</u>	<u>188,631</u>	<u>438,811</u>
NET POSITION					
Net Investment in Capital Assets	9,900,494	12,493,396	22,393,890	1,601,117	333,716
Restricted for:					
Park	50,000		50,000		
TIF Districts	414,860		414,860		
Lodging Tax	17,029		17,029		
Debt Service	7,589,690		7,589,690		
Bond Covenants		626,854	626,854		
Unrestricted	<u>2,444,254</u>	<u>3,546,618</u>	<u>5,990,872</u>	<u>368,332</u>	<u>(320,264)</u>
TOTAL NET POSITION	<u>\$ 20,416,327</u>	<u>\$ 16,666,868</u>	<u>\$ 37,083,195</u>	<u>\$ 1,969,449</u>	<u>\$ 13,452</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PERHAM, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

Exhibit A-2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units (UNAUDITED)	
					Governmental Activities	Business-type Activities	Total	Perham Area Community Center	Perham Golf Course
<i>Primary Government:</i>									
<i>Governmental Activities:</i>									
General Government	\$ 487,892	\$ 254,332	\$ 21,251	\$ 2,488	\$ (209,821)	\$	\$ (209,821)	\$	\$
Public Safety	925,134	90,804	177,419	11,696	(645,215)		(645,215)		
Public Works	1,072,637	38,646	3,646	618,457	(411,888)		(411,888)		
Culture and Recreation	571,534	10,408	52,416	55,737	(452,973)		(452,973)		
Economic Development	458,440	110,963	119,110		(228,367)		(228,367)		
Airport	130,414	85,511	21,778		(23,125)		(23,125)		
Interest on Long-term Debt	334,413		35,989		(298,424)		(298,424)		
Total Governmental Activities	<u>3,980,464</u>	<u>590,664</u>	<u>431,609</u>	<u>688,378</u>	<u>(2,269,813)</u>		<u>(2,269,813)</u>		
<i>Business-type Activities:</i>									
Municipal Liquor	2,577,780	2,941,663				363,883	363,883		
Gas	6,876,677	7,505,654				628,977	628,977		
Sewer and Wastewater	967,323	1,250,394		2,022,071		2,305,142	2,305,142		
Water	676,193	717,866				41,673	41,673		
Recycling	71,456	72,460				1,004	1,004		
Total Business-type Activities	<u>11,169,429</u>	<u>12,488,037</u>		<u>2,022,071</u>		<u>3,340,679</u>	<u>3,340,679</u>		
Total Primary Government	<u>\$ 15,149,893</u>	<u>\$ 13,078,701</u>	<u>\$ 431,609</u>	<u>\$ 2,710,449</u>	<u>(2,269,813)</u>	<u>3,340,679</u>	<u>1,070,866</u>		
<i>Component Unit:</i>									
Perham Area Community Center	\$ 852,240	\$ 821,315	\$ 7	\$ 218,740				187,822	
Perham Golf Course	680,481	635,307	13,580						(31,594)
Total Component Units	<u>\$ 1,532,721</u>	<u>\$ 1,456,622</u>	<u>\$ 13,587</u>	<u>\$ 218,740</u>				<u>187,822</u>	<u>(31,594)</u>
<i>General Revenues:</i>									
Property Taxes					1,654,718		1,654,718		
Hotel/Motel Taxes					36,297		36,297		
Taxes Franchise Fees					53,899		53,899		
Unrestricted State Aid					460,341	316,522	776,863		
Unrestricted Investment Earnings					185,421	27,996	213,417	1,539	
Gain on Sale of Capital Assets					163,073	46,453	209,526		
Other General Revenue					419,561		419,561		
Transfers					487,877	(487,877)			
Total General Revenues and Transfers					<u>3,461,187</u>	<u>(96,906)</u>	<u>3,364,281</u>	<u>1,539</u>	
Change in Net Position					<u>1,191,374</u>	<u>3,243,773</u>	<u>4,435,147</u>	<u>189,361</u>	<u>(31,594)</u>
Net Position - January 1, as Previously Stated					<u>19,369,544</u>	<u>13,762,570</u>	<u>33,132,114</u>	<u>1,780,088</u>	<u>45,046</u>
Adjustment					<u>(144,591)</u>	<u>(339,475)</u>	<u>(484,066)</u>		
Net Position - January 1, Restated					<u>19,224,953</u>	<u>13,423,095</u>	<u>32,648,048</u>	<u>1,780,088</u>	<u>45,046</u>
Net Position - December 31					<u>\$ 20,416,327</u>	<u>\$ 16,666,868</u>	<u>\$ 37,083,195</u>	<u>\$ 1,969,449</u>	<u>\$ 13,452</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PERHAM, MINNESOTA
BALANCE SHEET
DECEMBER 31, 2013**

Exhibit A-3

	<u>General</u>	<u>Economic Develop- ment Revolving Loan</u>	<u>1996 IRP Loan Program</u>	<u>2009 G.O. Improve- ment Bonds</u>	<u>2012A G.O. Refunding Bonds</u>	<u>2013 Improve- ment Project</u>	<u>Total Nonmajor Funds</u>	<u>Total Govern- mental Funds</u>
ASSETS								
Cash and Investments	\$ 740,195	\$ 1,134,198	\$ 1,108,777	\$ 173,755	\$ 2,955	\$ 208,895	\$ 3,114,619	\$ 6,483,394
Cash with Fiscal Agent					818,900			818,900
Receivables								
Accounts	4,072						4,468	8,540
Interest	9,978							9,978
Tax								
Current	8,921	855					14,065	23,841
Delinquent	2,792	268					16,928	19,988
Special Assessments								
Delinquent	475			1,488			9,157	11,120
Deferred				833,196			2,837,571	3,670,767
Notes Receivable		837,714	1,056,000				25,112	1,918,826
Due from Other Funds	4,580							4,580
TOTAL ASSETS	\$ 771,013	\$ 1,973,035	\$ 2,164,777	\$ 1,008,439	\$ 821,855	\$ 208,895	\$ 6,021,920	\$ 12,969,934
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES								
LIABILITIES								
Accounts Payable	\$ 69,218	\$ 41,245	\$ 957	\$	\$	\$ 38,482	\$ 15,746	\$ 165,648
Accrued Payroll	12,967	2,667					2,629	18,263
Due to Other Funds							226,733	226,733
Total Liabilities	<u>82,185</u>	<u>43,912</u>	<u>957</u>			<u>38,482</u>	<u>245,108</u>	<u>410,644</u>
DEFERRED INFLOWS OF RESOURCES								
Deferred Revenue	3,267	268		834,684			2,863,656	3,701,875
Total Deferred Inflows of Resources	<u>3,267</u>	<u>268</u>		<u>834,684</u>			<u>2,863,656</u>	<u>3,701,875</u>
FUND BALANCES								
Nonspendable - Endowment							50,000	50,000
Restricted for:								
TIF District							402,334	402,334
Marketing							17,029	17,029
Debt Service			2,163,820	173,755	821,855		1,756,268	4,915,698
Capital Projects						170,413		170,413
Committed for:								
Development		146,747						146,747
Revolving Loans		1,782,108						1,782,108
Library							73,550	73,550
Fire and Rescue							96,974	96,974
Storm Sewer							69,253	69,253
Assigned for:								
Capital Projects							304,357	304,357
Fairgrounds							124,345	124,345
PACC							70,000	70,000
Park							3,374	3,374
Unassigned	685,561						(54,328)	631,233
Total Fund Balances	<u>685,561</u>	<u>1,928,855</u>	<u>2,163,820</u>	<u>173,755</u>	<u>821,855</u>	<u>170,413</u>	<u>2,913,156</u>	<u>8,857,415</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 771,013	\$ 1,973,035	\$ 2,164,777	\$ 1,008,439	\$ 821,855	\$ 208,895	\$ 6,021,920	\$ 12,969,934

The notes to the financial statements are an integral part of this statement.

**CITY OF PERHAM, MINNESOTA
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 DECEMBER 31, 2013**

Exhibit A-4

Total fund balances - governmental funds	\$	8,857,415
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		27,734,560
Less accumulated depreciation		(7,264,780)
Long-term liabilities used in governmental activities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Bonds		(11,597,500)
Other Long-Term Obligations		(865,629)
Less: Issuance Discounts (to be amortized as interest expense)		42,801
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.		(116,272)
Compensated absence payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.		(76,143)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		<u>3,701,875</u>
Net position - governmental activities	\$	<u><u>20,416,327</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PERHAM, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013**

Exhibit A-5

	General	Economic Development Revolving Loan	1996 IRP Loan Program	2009 G.O. Improvement Bonds	2012A G.O. Refunding Bonds	2013 Improvement Project	Total Nonmajor Funds	Total Governmental Funds
REVENUES								
Property Taxes	\$ 420,558	\$ 40,267	\$	\$ 109	\$	\$	\$ 1,212,886	\$ 1,673,820
Hotel/Motel Tax							36,297	36,297
Special Assessments	229			84,986			479,307	564,522
Licenses and Permits	218,467							218,467
Intergovernmental								
Federal	9,696			20,717			19,761	50,174
State	523,018	247					103,994	627,259
Local	3,646						133,275	136,921
Charges for Services	111,456	21,600					103,387	236,443
Fines and Forfeitures	28,513							28,513
Miscellaneous								
Interest on Loans Receivable		45,884	51,236					97,120
Interest on Investments	4,862	3,953	2,422	1,852	3,769		19,239	36,097
Rents		2,972					86,270	89,242
Contributions	6,499	5,200					107,552	119,251
Reimbursements	63,473						59,232	122,705
Other Receipts	55,312	84,163	199,618				16,637	355,730
Total Revenues	<u>1,445,729</u>	<u>204,286</u>	<u>253,276</u>	<u>107,664</u>	<u>3,769</u>		<u>2,377,837</u>	<u>4,392,561</u>
EXPENDITURES								
Current								
General Government	435,656							435,656
Public Safety	530,301						248,561	778,862
Public Works	287,003						36,164	323,167
Culture and Recreation	254,052						182,037	436,089
Economic Development		225,499	1,067				227,879	454,445
Airport	86,821							86,821
Debt Service								
Principal			63,708	160,000	1,365,000		951,300	2,540,008
Interest			9,292	61,775	17,091		288,582	376,740
Fees				655			4,872	5,527
Capital Outlay								
General Government							28,225	28,225
Public Safety							31,082	31,082
Public Works						942,151	300,450	1,242,601
Culture and Recreation							67,357	67,357
Airport							6,512	6,512
Total Expenditures	<u>1,593,833</u>	<u>225,499</u>	<u>74,067</u>	<u>222,430</u>	<u>1,382,091</u>	<u>942,151</u>	<u>2,373,021</u>	<u>6,813,092</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(148,104)</u>	<u>(21,213)</u>	<u>179,209</u>	<u>(114,766)</u>	<u>(1,378,322)</u>	<u>(942,151)</u>	<u>4,816</u>	<u>(2,420,531)</u>
OTHER FINANCING SOURCES (USES)								
Debt Issued						1,115,000		1,115,000
Sale of Capital Asset	164,966							164,966
Transfers In	232,030	21,000		85,000			917,491	1,255,521
Transfers Out	(127,506)		(21,000)	(173,456)			(445,682)	(767,644)
Total Other Financing Sources (Uses)	<u>269,490</u>	<u>21,000</u>	<u>(21,000)</u>	<u>(88,456)</u>		<u>1,115,000</u>	<u>471,809</u>	<u>1,767,843</u>
NET CHANGE IN FUND BALANCES	<u>121,386</u>	<u>(213)</u>	<u>158,209</u>	<u>(203,222)</u>	<u>(1,378,322)</u>	<u>172,849</u>	<u>476,625</u>	<u>(652,688)</u>
FUND BALANCE, JANUARY 1 AS PREVIOUSLY STATED	564,175	1,929,068	2,005,611	376,977	2,200,177	(2,436)	1,940,727	9,014,299
ADJUSTMENT							495,804	495,804
FUND BALANCE, JANUARY 1, RESTATED	<u>564,175</u>	<u>1,929,068</u>	<u>2,005,611</u>	<u>376,977</u>	<u>2,200,177</u>	<u>(2,436)</u>	<u>2,436,531</u>	<u>9,510,103</u>
FUND BALANCE, DECEMBER 31	<u>\$ 685,561</u>	<u>\$ 1,928,855</u>	<u>\$ 2,163,820</u>	<u>\$ 173,755</u>	<u>\$ 821,855</u>	<u>\$ 170,413</u>	<u>\$ 2,913,156</u>	<u>\$ 8,857,415</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PERHAM, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

Exhibit A-6

Total net change in fund balances - governmental funds	\$ (652,688)
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	1,034,337
Depreciation expense	(775,450)
The net effect of various capital asset transactions decreases net position.	(1,892)
Proceeds from long-term debt provide current financial resources to governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(1,115,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,540,004
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Also, governmental funds report the effect of discounts when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	42,335
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	128,306
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	<u>(8,578)</u>
Change in net position - governmental activities	<u>\$ 1,191,374</u>

The notes to the financial statements are an integral part of this statement.

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

Exhibit A-7

	<u>Gas</u>	<u>Sewer and Wastewater</u>	<u>Water</u>	<u>Municipal Liquor</u>	<u>Nonmajor Recycling</u>	<u>Totals</u>
ASSETS						
CURRENT ASSETS						
Cash and Investments	\$ 1,102,650	\$	\$ 1,112,976	\$ 667,539	\$ 86,253	\$ 2,969,418
Accounts Receivable (Net of Allowance)	920,256	216,215	51,425		6,434	1,194,330
Special Assessments Receivable						
Deferred		6,751	1,701			8,452
Due from Other Funds	65,723		306,587	68,860		441,170
Due from Other Governments		359,595				359,595
Notes Receivable	61,572					61,572
Inventory				297,330		297,330
Total Current Assets	<u>2,150,201</u>	<u>582,561</u>	<u>1,472,689</u>	<u>1,033,729</u>	<u>92,687</u>	<u>5,331,867</u>
NONCURRENT ASSETS						
Restricted Cash:						
Bond Covenants	308,935	317,919				626,854
Capital Assets						
Land	7,000	756,478	563,981	220,763		1,548,222
Buildings	51,376			951,474		1,002,850
Machinery and Equipment	424,274	693,766	112,716	95,157	111,219	1,437,132
Improvements Other than Buildings	7,118,270	13,302,816	6,267,449			26,688,535
Less: Accumulated Depreciation	(3,295,571)	(3,084,159)	(1,411,355)	(182,877)	(58,939)	(8,032,901)
Total Capital Assets	<u>4,305,349</u>	<u>11,668,901</u>	<u>5,532,791</u>	<u>1,084,517</u>	<u>52,280</u>	<u>22,643,838</u>
Total Noncurrent Assets	<u>4,614,284</u>	<u>11,986,820</u>	<u>5,532,791</u>	<u>1,084,517</u>	<u>52,280</u>	<u>23,270,692</u>
Total Assets	<u>6,764,485</u>	<u>12,569,381</u>	<u>7,005,480</u>	<u>2,118,246</u>	<u>144,967</u>	<u>28,602,559</u>
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	847,803	351,327	11,229	124,787	30,149	1,365,295
Accrued Payroll	5,561	2,595	2,595	2,697	87	13,535
Due to Other Funds		219,017				219,017
Consumer Deposits	55,800		1,500			57,300
Accrued Interest Payable	11,806	26,521	20,983	3,480		62,790
Unearned Revenue	4,311					4,311
Current Portion - Long Term Liab.	177,700	455,540	215,300	136,330		984,870
Total Current Liabilities	<u>1,102,981</u>	<u>1,055,000</u>	<u>251,607</u>	<u>267,294</u>	<u>30,236</u>	<u>2,707,118</u>
NONCURRENT LIABILITIES						
Bonds Payable	3,470,000	3,646,246	2,282,000			9,398,246
Loans Payable		196,234				196,234
Lease/Purchase Agreement				555,962		555,962
Compensated Absences	28,209	14,037	14,037	6,691	27	63,001
Less: Current Portion of Long Term Liabilities	(177,700)	(455,540)	(215,300)	(136,330)		(984,870)
Total Noncurrent Liabilities	<u>3,320,509</u>	<u>3,400,977</u>	<u>2,080,737</u>	<u>426,323</u>	<u>27</u>	<u>9,228,573</u>
Total Liabilities	<u>4,423,490</u>	<u>4,455,977</u>	<u>2,332,344</u>	<u>693,617</u>	<u>30,263</u>	<u>11,935,691</u>
NET POSITION						
Net Investment in Capital Assets	835,349	7,826,421	3,250,791	528,555	52,280	12,493,396
Restricted for Bond Covenants	308,935	317,919				626,854
Unrestricted	1,196,711	(30,936)	1,422,345	896,074	62,424	3,546,618
Total Net Position	<u>\$ 2,340,995</u>	<u>\$ 8,113,404</u>	<u>\$ 4,673,136</u>	<u>\$ 1,424,629</u>	<u>\$ 114,704</u>	<u>\$ 16,666,868</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PERHAM, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013

Exhibit A-8

	<u>Gas</u>	<u>Sewer and Wastewater</u>	<u>Water</u>	<u>Municipal Liquor</u>	<u>Nonmajor Recycling</u>	<u>Totals</u>
OPERATING REVENUES						
Sales	\$ 7,347,309	\$	\$	\$ 2,938,965	\$	\$ 10,286,274
Cost of Sales	6,020,230			2,170,746		8,190,976
Gross Profit	1,327,079			768,219		2,095,298
Charges for Services	22,869	1,164,993	694,583		68,637	1,951,082
Other Services	78,610	9,123	15,516		992	104,241
Total Operating Revenues	<u>1,428,558</u>	<u>1,174,116</u>	<u>710,099</u>	<u>768,219</u>	<u>69,629</u>	<u>4,150,621</u>
OPERATING EXPENSES						
Purchased Services					46,024	46,024
Professional Fees	121,248	120,228	57,572	16,836	252	316,136
Salaries and Benefits	232,850	126,938	123,776	194,635	3,621	681,820
Utilities	8,240	220,635	33,099	17,140		279,114
Maintenance and Supplies	91,653	162,821	41,146	22,621	15,159	333,400
Insurance	9,591	15,674	4,067	8,608	658	38,598
Depreciation	182,934	216,653	147,885	29,729	3,264	580,465
Other Expenses	54,247	41,723	29,686	71,756	2,478	199,890
Total Operating Expenses	<u>700,763</u>	<u>904,672</u>	<u>437,231</u>	<u>361,325</u>	<u>71,456</u>	<u>2,475,447</u>
Operating Income (Loss)	<u>727,795</u>	<u>269,444</u>	<u>272,868</u>	<u>406,894</u>	<u>(1,827)</u>	<u>1,675,174</u>
NONOPERATING REVENUE (EXPENSE)						
Intergovernmental						
Federal		2,022,071				2,022,071
State	741	315,071	370	309	31	316,522
Interest on Investments	11,158	2,301	8,986	5,085	466	27,996
Special Assessments		3,901	1,018			4,919
Refunds and Reimbursements	56,866	72,377	6,749	2,698	2,831	141,521
Gain (Loss) on Disposal of Capital Assets	5,000		(139,783)		8,100	(126,683)
Contributions Made	(10,000)			(30,545)		(40,545)
Interest Expense	(145,684)	(62,651)	(65,826)	(15,164)		(289,325)
Total Nonoperating Revenue (Expense)	<u>(81,919)</u>	<u>2,353,070</u>	<u>(188,486)</u>	<u>(37,617)</u>	<u>11,428</u>	<u>2,056,476</u>
Income before Transfers	645,876	2,622,514	84,382	369,277	9,601	3,731,650
Transfers Out	(180,370)	(41,524)	(75,233)	(190,750)		(487,877)
Change in Net Position	<u>465,506</u>	<u>2,580,990</u>	<u>9,149</u>	<u>178,527</u>	<u>9,601</u>	<u>3,243,773</u>
TOTAL NET POSITION, JANUARY 1, AS PREVIOUSLY STATED	2,207,904	5,539,474	4,663,987	1,246,102	105,103	13,762,570
ADJUSTMENT	(332,415)	(7,060)				(339,475)
TOTAL NET POSITION, JANUARY 1, RESTATED	<u>1,875,489</u>	<u>5,532,414</u>	<u>4,663,987</u>	<u>1,246,102</u>	<u>105,103</u>	<u>13,423,095</u>
TOTAL NET POSITION, DECEMBER 31	<u>\$ 2,340,995</u>	<u>\$ 8,113,404</u>	<u>\$ 4,673,136</u>	<u>\$ 1,424,629</u>	<u>\$ 114,704</u>	<u>\$ 16,666,868</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PERHAM, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013**

Exhibit A-9

	<u>Gas</u>	<u>Sewer and Wastewater</u>	<u>Water</u>	<u>Municipal Liquor</u>	<u>Nonmajor Recycling</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers and Users	\$ 7,170,113	\$ 1,096,466	\$ 708,513	\$ 2,938,965	\$ 70,229	\$ 11,984,286
Receipts from Interfund Services Provided	2,013					2,013
Payments to Suppliers	(6,100,355)	(550,569)	(164,668)	(2,326,399)	(44,292)	(9,186,283)
Payments for Interfund Services Used				(2,013)		(2,013)
Payments to Employees	(228,718)	(126,074)	(122,961)	(195,257)	(3,765)	(676,775)
Net Cash Provided by Operating Activities	<u>843,053</u>	<u>419,823</u>	<u>420,884</u>	<u>415,296</u>	<u>22,172</u>	<u>2,121,228</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Change in Interfund Loans	35,702	219,017	(207,704)	21,785		68,800
Change in Due from Other Governments		438,263	39,036			477,299
Nonoperating Revenue	57,606	70,420	6,423	3,007	2,862	140,318
Nonoperating Expense	(10,000)			(30,545)		(40,545)
Change in Notes Receivable	(5,717)					(5,717)
Transfers to Other Funds	(180,370)	(41,524)	(75,233)	(190,750)		(487,877)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(102,779)</u>	<u>686,176</u>	<u>(237,478)</u>	<u>(196,503)</u>	<u>2,862</u>	<u>152,278</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of Capital Assets	(143,635)	(5,658,747)	(130,347)		(26,261)	(5,958,990)
Payment of Long-Term Debt	(160,000)	(194,383)	(200,000)	(129,726)		(684,109)
Proceeds from Long-Term Debt		2,442,879				2,442,879
Proceeds from Sale of Capital Assets	5,000		65,753		8,100	78,853
Interest on Long-Term Debt	(146,039)	(58,958)	(67,612)	(17,526)		(290,135)
Intergovernmental Revenue		2,337,142				2,337,142
Special Assessments Received		3,901	1,018			4,919
Net Cash Used by Capital and Related Financing Activities	<u>(444,674)</u>	<u>(1,128,166)</u>	<u>(331,188)</u>	<u>(147,252)</u>	<u>(18,161)</u>	<u>(2,069,441)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Earnings	11,158	2,305	8,982	5,086	466	27,997
Net Cash Provided by Investing Activities	<u>11,158</u>	<u>2,305</u>	<u>8,982</u>	<u>5,086</u>	<u>466</u>	<u>27,997</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	306,758	(19,862)	(138,800)	76,627	7,339	232,062
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>1,104,827</u>	<u>337,781</u>	<u>1,251,776</u>	<u>590,912</u>	<u>78,914</u>	<u>3,364,210</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,411,585</u>	<u>\$ 317,919</u>	<u>\$ 1,112,976</u>	<u>\$ 667,539</u>	<u>\$ 86,253</u>	<u>\$ 3,596,272</u>

cont.

The notes to the financial statements are an integral part of this statement.

**CITY OF PERHAM, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013**

Exhibit A-9

	<u>Gas</u>	<u>Sewer and Wastewater</u>	<u>Water</u>	<u>Municipal Liquor</u>	<u>Nonmajor Recycling</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES						
Operating Income (Loss)	\$ 727,795	\$ 269,444	\$ 272,868	\$ 406,894	\$ (1,827)	\$ 1,675,174
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities						
Depreciation	182,934	216,653	147,885	29,729	3,264	580,465
Decrease (Increase) in						
Accounts Receivable	(278,497)	(77,650)	(1,561)		600	(357,108)
Inventory				(23,567)		(23,567)
Increase (Decrease) in						
Accounts Payable	204,854	10,512	902	2,862	20,279	239,409
Accrued Payroll	650	387	338	(1,651)	2	(274)
Unearned Revenue	(39)					(39)
Compensated Absences	3,482	477	477	1,029	(146)	5,319
Other Current Liabilities	1,874		(25)			1,849
Total Adjustments	<u>115,258</u>	<u>150,379</u>	<u>148,016</u>	<u>8,402</u>	<u>23,999</u>	<u>446,054</u>
Net Cash Provided by Operating Activities	<u>\$ 843,053</u>	<u>\$ 419,823</u>	<u>\$ 420,884</u>	<u>\$ 415,296</u>	<u>\$ 22,172</u>	<u>\$ 2,121,228</u>
NONCASH CAPITAL ACTIVITIES						
Acquisition of a Capital Asset through Accounts Payable	\$	\$ 281,652	\$	\$	\$	\$ 281,652

The notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Perham, Minnesota, has a council-manager form of government. A mayor and four council members are elected by the voters of the City for two-year and four-year terms, respectively.

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 Perham'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. The discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the government. The discretely presented component units have a December 31 year-end.

DISCRETELY PRESENTED COMPONENT UNITS (Unaudited)

Perham Area Community Center

The Community Center is operating to provide services to the residents of the City of Perham and surrounding areas. One of the members of the city council is appointed to serve on the Board of Directors of the Community Center. Expenditures are approved by the city council along with the annual budget. The Perham Area Community Center operates with a December 31 year-end.

Perham Golf Course

The Perham Golf Course was constructed on land that is owned by the City. The City has issued gross revenue bonds to finance the expansion of the golf course and is required to maintain a separate fund to account for all revenue received from operations, which are reserved for principal and interest payments. The City has an agreement with the Perham Lakeside Golf Club for the operation of the golf course.

BLENDED COMPONENT UNITS - None.

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

Perham Area Community Center
620 Third Avenue Southeast
Perham, Minnesota 56573

Perham Lakeside Golf Club
2727 450th Street
Perham, Minnesota 56573

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., 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 is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

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

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 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 *economic development revolving loan fund* accounts for monies loaned at low interest rates to individuals or businesses, specifically for the purpose of economic development.

The *1996 IRP loan program fund* accounts for monies loaned at low interest rates to individuals or businesses, specifically for the purpose of economic development.

The *2009B G.O. improvement bonds fund* accounts for all activities associated with debt service for the 2009B General Obligation Improvement Bonds.

The *2012A G.O. refunding bonds fund* accounts for all activities associated with debt service for the 2012A General Obligation Refunding Bonds.

The *2013 improvement project fund* accounts for all activities associated with the improvements to city infrastructure.

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

The government reports the following major proprietary funds:

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

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

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

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

The government also has a nonmajor proprietary fund. The *recycling fund* is used to account for revenues and expenses to operate the recycling utility.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, 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. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

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.

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

F. Investments

Investments are stated at fair value as of the balance sheet date. Amortization of premiums and accretion of discounts on investment purchases are not recorded over the term of the investment. The effect of this policy on the financial statements of various funds is not significant.

G. 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 \$40,000. 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 on the 21st of the month. A penalty is charged on receivables that are outstanding on the 21st of the month.

H. 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.

I. Special Assessments Receivable

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

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

Special assessments receivable includes the following components:

Delinquent - amounts billed to property owners but not paid.

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

Special assessments receivables not expected to be collected within one year are \$3,400,000.

J. 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."

K. 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 electric, water, and sewer are presented on an average cost basis, while golf course and municipal liquor fund inventories are presented at lower of cost or market.

L. Capital Assets

Capital assets, which include property, plant, 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.

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. 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.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Buildings	20-40 years
Improvements other than Buildings	5-50 years
Machinery and Equipment	5-40 years

M. Compensated Absences

Vacation leave is recognized as an expenditure or expense when earned. City employees are granted from 7 to 28 days of vacation per year depending upon their years of service. Vacation that is earned as of December 31, 2013, and is expected to be taken by December 31, 2013, is considered a current liability and is accrued in the December 31, 2013, financial statements. Unused vacation leave of 48 hours can be carried over to the succeeding year.

Compensatory time is earned by 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 City employees earn sick leave at the rate of one day per month to a maximum of 120 days.

Any employee who has rendered at least five years of service and is in good standing is entitled upon retirement or termination, cash payment of 25 percent of their accumulated sick leave balance, which is limited to one month's pay. Once an employee renders ten years of service and is in good standing he or she is entitled, upon retirement or termination, cash payment of 50 percent or 400 hours of their accumulated sick leave balance. Due to the uncertainty as to when employees will terminate or retire and payment of sick leave benefits will be required, the liability is considered to be long-term.

N. Long-term Obligations

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

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

O. Sales Tax

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

P. Deferred Outflows/Inflows of Resources

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

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

For the year ended December 31, 2013, the City implemented GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*". This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Q. Fund Equity

GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

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

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

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

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

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 Manager and Finance Officer.

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 a minimum unassigned general fund balance of 35% of the annual budget.

R. 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.

S. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

NOTE 2. RESTATEMENT

As of January 1, 2013, the City has elected to report the TIF funds as one fund for financial statement presentation. The following funds were combined for into one fund "TIF Districts": TIF District 2-24 Housing, Municipal Development District # 2, and Municipal Development District #14.

NOTE 3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

The City has prepared its December 31, 2013 financial statements in accordance with GASB Statement No. 65. The effect of the change in accounting principle decreased net position in the governmental activities, gas fund, and sewer and wastewater utility fund by \$144,591, \$332,415 and \$7,060, respectively.

NOTE 4. DEFICIT FUND BALANCES

The following funds had a deficit fund balances at December 31, 2013.

1999 EDA Safety Building Bond	\$49,400
CDBG	2,934
Interchange Project	1,646
Clearwater 2 nd Addition	348

The deficits are expected to be eliminated through future revenues.

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

NOTE 5. DEPOSITS AND INVESTMENTS

The pooled cash and investment account is comprised of the following:

	Primary Government	Perham Area Community Center	Perham Golf Course
Cash	\$ <u>10,898,566</u>	\$ <u>514,620</u>	\$ <u>3,936</u>
	\$ <u>10,898,566</u>	\$ <u>514,620</u>	\$ <u>3,936</u>

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy limits at least 80% of the City’s investment portfolio to maturities of five years or less and no investment should extend beyond ten years.

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 of 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 qualification described in (f) above.

Concentration of Credit Risk - The City places no limit on the amount the City may invest in any one issuer.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City’s city council, all of which are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2013, the City was not exposed to custodial credit risk.

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

NOTE 6. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013, was as follows.

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 600,524	\$	\$	\$ 600,524
Construction In Process	454,737	950,375	485,207	919,905
Total Capital Assets, Not Being Depreciated	<u>1,055,261</u>	<u>950,375</u>	<u>485,207</u>	<u>1,520,429</u>
Capital Assets, Being Depreciated:				
Buildings	4,841,852	25,250		4,867,102
Improvements Other Than Buildings	17,297,067	485,207		17,782,274
Machinery and Equipment	3,540,143	58,712	34,100	3,564,755
Total Capital Assets, Being Depreciated	<u>25,679,062</u>	<u>569,169</u>	<u>34,100</u>	<u>26,214,131</u>
Less Accumulated Depreciation For:				
Buildings	1,664,511	132,081		1,796,592
Improvements Other Than Buildings	3,605,399	449,844		4,055,243
Machinery and Equipment	1,251,628	193,525	32,208	1,412,945
Total Accumulated Depreciation	<u>6,521,538</u>	<u>775,450</u>	<u>32,208</u>	<u>7,264,780</u>
Total Capital Assets, Being Depreciated, Net	<u>19,157,524</u>	<u>(206,281)</u>	<u>1,892</u>	<u>18,949,351</u>
Governmental Activities Capital Assets, Net	<u>\$ 20,212,785</u>	<u>\$ 744,094</u>	<u>\$ 487,099</u>	<u>\$ 20,469,780</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,580,622	\$	\$ 32,400	\$ 1,548,222
Construction In Process	964,150		964,150	
Total Capital Assets, Not Being Depreciated	<u>2,544,772</u>		<u>996,550</u>	<u>1,548,222</u>
Capital Assets, Being Depreciated:				
Buildings	1,002,850			1,002,850
Improvements Other Than Buildings	20,551,260	6,407,237	269,962	26,688,535
Machinery and Equipment	1,347,010	113,554	23,432	1,437,132
Total Capital Assets, Being Depreciated	<u>22,901,120</u>	<u>6,520,791</u>	<u>293,394</u>	<u>29,128,517</u>
Less Accumulated Depreciation For:				
Buildings	140,950	24,721		165,671
Improvements Other Than Buildings	6,525,913	487,164	120,259	6,892,818
Machinery and Equipment	905,832	68,580		974,412
Total Accumulated Depreciation	<u>7,572,695</u>	<u>580,465</u>	<u>120,259</u>	<u>8,032,901</u>
Total Capital Assets, Being Depreciated, Net	<u>15,328,425</u>	<u>5,940,326</u>	<u>173,135</u>	<u>21,095,616</u>
Business-type Activities Capital Assets, Net	<u>\$ 17,873,197</u>	<u>\$ 5,940,326</u>	<u>\$ 1,169,685</u>	<u>\$ 22,643,838</u>

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

Governmental Activities:	
General Government	\$ 38,042
Public Safety	142,765
Public Works, including Depreciation of General Infrastructure Assets	414,378
Culture and Recreation	135,097
Economic Development	1,575
Airport	43,593
Total Depreciation Expense - Governmental Activities	<u>\$ 775,450</u>
Business-type Activities:	
Gas	\$ 182,934
Sewer and Wastewater	216,653
Water	147,885
Municipal Liquor	29,729
Recycling	3,264
Total Depreciation Expense - Business-type Activities	<u>\$ 580,465</u>

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

Component Units (Unaudited)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Perham Area Community Center</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 41,130	\$	\$	\$ 41,130
Capital Assets, Being Depreciated:				
Buildings	2,557,772	282,571		2,840,343
Machinery and Equipment	474,716	19,993		494,709
Total Capital Assets, Being Depreciated	<u>3,032,488</u>	<u>302,564</u>		<u>3,335,052</u>
Total Accumulated Depreciation	<u>1,661,490</u>	<u>113,575</u>		<u>1,775,065</u>
Total Capital Assets, Being Depreciated, Net	<u>1,370,998</u>	<u>188,989</u>		<u>1,559,987</u>
Perham Area Community Center Capital Assets, Net	<u>\$ 1,412,128</u>	<u>\$ 188,989</u>	<u>\$</u>	<u>\$ 1,601,117</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Perham Golf Course</u>				
Capital Assets, Being Depreciated:				
Improvements Other than Buildings	\$ 269,216	\$		\$ 269,216
Machinery and Equipment	668,236	25,689		693,925
Total Capital Assets, Being Depreciated	<u>937,452</u>	<u>25,689</u>		<u>963,141</u>
Less Accumulated Depreciation For:				
Improvements Other than Buildings	39,501	13,687		53,188
Machinery and Equipment	443,854	60,002		503,856
Total Accumulated Depreciation	<u>483,355</u>	<u>73,689</u>		<u>557,044</u>
Perham Golf Course Capital Assets, Net	<u>\$ 454,097</u>	<u>\$ (48,000)</u>	<u>\$</u>	<u>\$ 406,097</u>

NOTE 7. NOTES RECEIVABLE

The City has various notes receivable from individuals and organizations at December 31, 2013, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Special Revenue Funds			
Economic Development Loans	2014 - 2023	0.0 – 6.0%	\$ 893,714
Debt Service Funds			
Economic Development Loans	2014 - 2023	3.0 - 7.5%	1,146,000
Permanent Improvement Fund			
East Ottertail Ag Society	2014 - 2016	3.0%	25,112
Gas Fund			
Youth Build Affordable Housing Project Loans		2.5%	<u>61,572</u>
Total			<u>\$2,126,398</u>

The provision for uncollectible was \$146,000.

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

NOTE 8. LEASES

Component Units (Unaudited)

Operating Leases. The Perham Golf Course has entered into lease agreements for golf carts. These lease agreements qualify as operating leases for accounting purposes. The Perham Golf Course can, at the end of the initial lease terms, purchase the equipment at the then fair value of the equipment. Management does not believe the equipment will be purchased, but new leases will be entered into.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2013:

<u>Year Ending</u> <u>December 31</u>	<u>Perham</u> <u>Golf Course</u>
2014	\$ 42,000

NOTE 9. CONTINGENT LIABILITIES

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2013, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

At December 31, 2013, the City had a \$139,000 commitment for an uncompleted construction contract for the 2013 street improvement project and a \$36,000 commitment for an uncompleted construction contract for the wastewater treatment plant.

NOTE 10. LONG-TERM DEBT

Primary Government

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 \$15,258,220. During the year, general obligation bonds totaling \$1,115,000 were issued to finance construction projects.

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.4 – 5.5%	\$ 6,912,500
Governmental Activities – Refunding	0.5 – 3.2%	4,050,000
Business-type Activities	4.1 – 4.4%	210,000
Business-type Activities – Refunding	2.5 – 3.2%	410,000

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

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 1,658,800	\$ 309,632	\$ 330,000	\$ 16,059
2015	1,099,400	275,958	55,000	8,575
2016	1,149,900	246,333	55,000	7,200
2017	1,091,500	215,168	60,000	5,550
2018	792,000	188,991	60,000	3,750
2019-2023	3,545,100	605,994	60,000	1,920
2024-2028	1,518,300	134,452		
2029	107,500	2,599		
	<u>\$ 10,962,500</u>	<u>\$ 1,979,127</u>	<u>\$ 620,000</u>	<u>\$ 43,054</u>

General Obligation Revenue Bonds. The City issues general obligation revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation revenue bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$4,724,645. During the year, general obligation bonds totaling \$2,442,879 were issued to finance construction projects.

The City pledges income derived from the acquired or constructed assets to pay debt service. General obligation revenue bonds are direct obligations and pledge the full faith and credit of the City. General obligation revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental Activities - Refunding	0.9 – 2.4%	\$635,000
Business-type Activities	1.0 – 4.7%	5,308,246

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 125,000	\$ 10,565	\$ 290,000	\$ 115,210
2015	125,000	9,440	300,000	115,047
2016	100,000	8,065	305,000	107,800
2017	65,000	6,165	310,000	100,350
2018	70,000	4,930	321,000	92,590
2019-2023	150,000	5,400	1,545,000	343,112
2024-2028			1,372,000	164,978
2029-2033			570,000	72,200
2034-2036			295,246	29,470
	<u>\$ 635,000</u>	<u>\$ 44,565</u>	<u>\$ 5,308,246</u>	<u>\$ 1,140,757</u>

Revenue Bonds. The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The City has not pledged the full faith and credit of the City. Revenue bonds have been issued for business-type activities. The original amount of revenue bonds issued in prior years was \$4,060,000. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Business-type Activities - Refunding	2.7 – 4.7%	\$3,470,000

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

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2014	\$ 165,000	\$ 141,667
2015	165,000	136,921
2016	170,000	131,685
2017	180,000	125,773
2018	185,000	119,153
2019-2023	1,035,000	478,090
2024-2028	1,280,000	224,892
2029	290,000	6,888
	<u>\$ 3,470,000</u>	<u>\$ 1,365,069</u>

Loans Payable. The City has two 1% promissory notes to the U.S. Department of Agriculture for establishing an Intermediary Relending Program for various applicants who qualify for such loans in accordance with the applicable regulations of the Farmers Home Administration relating to the Intermediary Relending Program. The City has not pledged its full faith and credit for repayment of the notes, but only the assets pledged as security for loans to the recipients. The balance due on the notes was \$423,809 and \$441,820 at December 31, 2013.

The City has the following loans:

<u>Lender</u>	<u>Interest Rates</u>	<u>Amount</u>
U.S. Department of Agriculture	1.0%	\$ 865,629
Contract for Deed	1.3%	196,234
		<u>\$1,061,863</u>

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.0%	\$865,629
Business-type Activities	1.3%	196,234

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 64,296	\$ 8,704	\$ 38,240	\$ 2,510
2015	64,940	8,060	38,737	2,013
2016	65,590	7,409	39,240	1,510
2017	66,248	6,751	39,750	1,000
2018	66,912	6,088	40,267	483
2019-2023	344,756	20,248		
2024-2028	192,887	4,981		
	<u>\$ 865,629</u>	<u>\$ 62,241</u>	<u>\$ 196,234</u>	<u>\$ 7,516</u>

Lease/Purchase Agreement. The City has entered into a lease/purchase agreement for financing the construction of the Municipal Liquor Store building. The original amount of lease purchase revenue bonds issued in prior years was \$777,138.

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	2.75%	\$555,962

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

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2014	\$ 133,330	\$ 13,922
2015	137,035	10,217
2016	140,842	6,410
2017	144,755	2,497
	<u>\$ 555,962</u>	<u>\$ 33,046</u>

Crossover Refunding. During 2012 the City issued \$2,120,000 in general obligation refunding bonds with interest rates ranging between 0.45 to 2.45%. The City issued the bonds to refund the following outstanding general obligations:

General Obligation	Refunding Date	Interest Rate	Amount
Improvement Bonds of 2005A	2/1/2013	3.25-4.55%	\$ 1,270,000
Improvement Bonds of 2007A	2/1/2014	3.85-4.45	850,000

The City will realize a savings of \$398,338, with a present value of \$259,938.

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

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Bonds Payable					
General Obligation Bonds	\$ 12,203,800	\$ 1,115,000	\$ 2,356,300	\$ 10,962,500	\$ 1,658,800
General Obligation Revenue Bonds	755,000		120,000	635,000	125,000
Subtotal Bonds Payable	<u>12,958,800</u>	<u>1,115,000</u>	<u>2,476,300</u>	<u>11,597,500</u>	<u>1,783,800</u>
Less Deferred Amounts:					
For Issuance Discounts	(47,001)		(4,200)	(42,801)	(4,200)
On Refunding	(75,080)		(75,080)		
Total Bonds Payable	<u>12,836,719</u>	<u>1,115,000</u>	<u>2,397,020</u>	<u>11,554,699</u>	<u>1,779,600</u>
Other Long-term Obligations					
Loans Payable	929,333		63,704	865,629	64,296
Total Other Long-term Obligations	<u>929,333</u>		<u>63,704</u>	<u>865,629</u>	<u>64,296</u>
Compensated Absences Governmental Activity	<u>67,565</u>	<u>47,168</u>	<u>38,590</u>	<u>76,143</u>	<u>34,300</u>
Long-term Liabilities	<u>\$ 13,833,617</u>	<u>\$ 1,162,168</u>	<u>\$ 2,499,314</u>	<u>\$ 12,496,471</u>	<u>\$ 1,878,196</u>
<u>Business-type Activities</u>					
Bonds Payable					
General Obligation Bonds	\$ 755,000	\$	\$ 135,000	\$ 620,000	\$ 330,000
General Obligation Revenue Bonds	3,087,000	2,442,879	221,633	5,308,246	290,000
Revenue Bonds	3,630,000		160,000	3,470,000	165,000
Subtotal Bonds Payable	<u>7,472,000</u>	<u>2,442,879</u>	<u>516,633</u>	<u>9,398,246</u>	<u>785,000</u>
Less Deferred Amounts:					
On Refunding	(332,415)		(332,415)		
Total Bonds Payable	<u>7,139,585</u>	<u>2,442,879</u>	<u>184,218</u>	<u>9,398,246</u>	<u>785,000</u>
Other Long-term Obligations					
Lease/Purchase Agreement	685,688		129,726	555,962	133,330
Loans Payable	233,984		37,750	196,234	38,240
Total Other Long-term Obligations	<u>919,672</u>		<u>167,476</u>	<u>752,196</u>	<u>171,570</u>
Compensated Absences Business-type Activity	<u>57,685</u>	<u>21,561</u>	<u>16,245</u>	<u>63,001</u>	<u>28,300</u>
Long-term Liabilities	<u>\$ 8,116,942</u>	<u>\$ 2,464,440</u>	<u>\$ 367,939</u>	<u>\$ 10,213,443</u>	<u>\$ 984,870</u>

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

See the Schedule of Indebtedness for detail and payment provisions.

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

Component Units (Unaudited)

Loans Payable. The following loans have been issued:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Perham Golf Course	5.0%	\$235,881

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

<u>Year Ending</u> <u>December 31</u>	<u>Perham Golf Course</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 18,624	\$ 3,159
2015	38,624	6,300
2016	38,633	5,616
2017	20,000	4,900
2018	20,000	4,200
2019-2021	100,000	8,408
	<u>\$ 235,881</u>	<u>\$ 32,583</u>

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<u>Perham Golf Course</u>					
Other Long-term Obligations					
Loans Payable	\$ 256,435	\$	\$ 20,554	\$ 235,881	\$ 18,624
Lifetime Memberships	16,500			16,500	1,500
Component Unit Long-term Liabilities	<u>\$ 272,935</u>	<u>\$</u>	<u>\$ 20,554</u>	<u>\$ 252,381</u>	<u>\$ 20,124</u>

NOTE 11. REVOLVING LINE OF CREDIT

Component Unit (Unaudited)

Perham Golf Course entered into a line-of-credit agreement with a bank that permitted the Perham Golf Course to borrow up to \$225,000. The interest rate is 4.75%. The balance outstanding as of December 31, 2013, was \$174,209.

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
\$	\$	\$ 299,209	\$ 125,000	\$ 174,209

NOTE 12. CONDUIT DEBT (NO COMMITMENT DEBT)

The City has issued a Municipal Industrial Development Revenue Act Bond to provide financial assistance to a nonprofit corporation for the construction of an existing 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, 2013, the aggregate principal amount payable of the one series issued was \$704,357. The original issue amount totaled \$952,317.

NOTE 13. DEFINED BENEFIT PENSION PLANS

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

A. Public Employees Retirement Association

Plan Description

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

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

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and for GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the internet at www.mnpera.org or by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plan equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10%

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

and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. The City of Perham is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011, were \$64,797, \$118,202, and \$111,046, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2013, 2012, and 2011, were \$38,704, \$37,141, and \$35,378, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Due to / from other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 4,580
Gas	Nonmajor Governmental	65,722
Municipal Liquor	Nonmajor Governmental	68,861
Water	Sewer and Wastewater	219,017
Water	Nonmajor Governmental	87,570
		<u>\$ 445,750</u>

The amount payable is to finance the operation of the fund. Approximately \$150,000 of the balance is scheduled to be collected after 2013.

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Municipal Liquor	\$ 80,750
General	Sewer and Wastewater	15,500
General	Water	15,500
General	Gas	84,000
General	Nonmajor Governmental	36,280
Economic Development Revolving Loan	1996 IRP Loan Program	21,000
2009 G.O. Improvement Bonds	Nonmajor Governmental	85,000
Nonmajor Governmental	2009 G.O. Improvement Bonds	173,456
Nonmajor Governmental	Sewer and Wastewater	26,024
Nonmajor Governmental	Gas	96,370
Nonmajor Governmental	Water	59,733
Nonmajor Governmental	Municipal Liquor	110,000
Nonmajor Governmental	General	127,506
Nonmajor Governmental	Nonmajor Governmental	324,402
		<u>\$ 1,255,521</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due and 2) move unrestricted revenues to finance various programs that the government must account for in other funds.

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

NOTE 15. MAJOR CUSTOMERS

The City has four major customers, which represent about 57% of the gas, water, recycling, and sewer utility revenue.

<u>Name</u>	
Company 1	32%
Company 2	11%
Company 3	7%
Company 4	6%

NOTE 16. RISK MANAGEMENT

The City purchases commercial insurance coverage above the deductible through the League of Minnesota Cities Insurance Trust with other cities in the State, a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the League for its insurance coverage. The League of Minnesota Cities Insurance Trust is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

The City also purchases liquor liability and airport liability coverage from the League of Minnesota Cities (\$2,000,000 aggregate for each). The City retains risk for the deductible portion of the policy, which is considered immaterial to the financial statements. At December 31, 2013, there are no other claims liabilities reported in the financial statements based on the requirements of Government Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 17. NEW PRONOUNCEMENTS

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

Management has not yet determined the effect this statement will have on the financial statements.

CITY OF PERHAM, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Property Taxes	\$ 423,394	\$ 423,394	\$ 420,558	\$ (2,836)
Special Assessments			229	229
Licenses and Permits	64,000	64,000	218,467	154,467
Intergovernmental				
Federal			9,696	9,696
State				
Local Governmental Aid	459,137	459,137	459,137	
Police Aid	30,000	30,000	36,192	6,192
PERA	648	648	648	
Aviation Maintenance Aid	18,500	18,500	21,778	3,278
Other	2,500	2,500	5,263	2,763
Other Local Government	3,900	3,900	3,646	(254)
	<u>514,685</u>	<u>514,685</u>	<u>536,360</u>	<u>21,675</u>
Charges for Services				
General Government	45,110	45,110	35,865	(9,245)
Police Department	1,600	1,600	7,480	5,880
Airport	51,000	51,000	68,111	17,111
	<u>97,710</u>	<u>97,710</u>	<u>111,456</u>	<u>13,746</u>
Fines and Forfeitures	21,000	21,000	28,513	7,513
Miscellaneous				
Interest on Investments	2,500	2,500	4,862	2,362
Contributions	5,000	5,000	6,499	1,499
Reimbursements	12,000	12,000	63,473	51,473
Other Receipts	57,500	57,500	55,312	(2,188)
	<u>77,000</u>	<u>77,000</u>	<u>130,146</u>	<u>53,146</u>
Total Revenues	<u>1,197,789</u>	<u>1,197,789</u>	<u>1,445,729</u>	<u>247,940</u>

cont.

The notes to the required supplementary information are an integral part of this schedule.

CITY OF PERHAM, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND - Continued
YEAR ENDED DECEMBER 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES				
General Government				
Mayor and Council	30,121	60,121	56,175	(3,946)
Finance / Administration	143,016	143,016	157,283	14,267
Independent Auditors	4,500	4,500	3,165	(1,335)
Legal Services	47,000	47,000	36,613	(10,387)
Planning and Zoning	7,000	7,000	7,030	30
Building Inspection Fees	46,500	46,500	147,578	101,078
Municipal Building	29,050	29,050	27,812	(1,238)
	<u>307,187</u>	<u>337,187</u>	<u>435,656</u>	<u>98,469</u>
Public Safety				
Police Protection	487,508	487,508	513,022	25,514
Police Station	10,850	10,850	17,279	6,429
	<u>498,358</u>	<u>498,358</u>	<u>530,301</u>	<u>31,943</u>
Public Works				
Streets and Alleys	125,409	125,409	135,491	10,082
Snow and Ice Removal	56,544	56,544	92,316	35,772
Street Lighting	55,000	55,000	59,196	4,196
	<u>236,953</u>	<u>236,953</u>	<u>287,003</u>	<u>50,050</u>
Culture and Recreation				
Senior Center	30,000	30,000	29,629	(371)
Municipal Parks	220,531	220,531	224,423	3,892
	<u>250,531</u>	<u>250,531</u>	<u>254,052</u>	<u>3,521</u>
Airport	65,510	65,510	86,821	21,311
Total Expenditures	<u>1,358,539</u>	<u>1,388,539</u>	<u>1,593,833</u>	<u>205,294</u>
REVENUES UNDER EXPENDITURES	<u>(160,750)</u>	<u>(190,750)</u>	<u>(148,104)</u>	<u>42,646</u>
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets		164,966	164,966	
Transfers In	195,750	195,750	232,030	36,280
Transfers Out	(35,000)	(35,000)	(127,506)	(92,506)
Total Other Financing Sources (Uses)	<u>160,750</u>	<u>325,716</u>	<u>269,490</u>	<u>(56,226)</u>
NET CHANGE IN FUND BALANCES		134,966	121,386	(13,580)
FUND BALANCE, JANUARY 1	<u>564,175</u>	<u>564,175</u>	<u>564,175</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 564,175</u>	<u>\$ 699,141</u>	<u>\$ 685,561</u>	<u>\$ (13,580)</u>

The notes to the required supplementary information are an integral part of this schedule.

**CITY OF PERHAM, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT REVOLVING LOAN FUND
YEAR ENDED DECEMBER 31, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Property Taxes	\$ 40,431	\$ 40,431	\$ 40,267	\$ (164)
Intergovernmental - State				
PERA	250	250	247	(3)
Charges for Services	21,000	21,000	21,600	600
Miscellaneous				
Contributions			5,200	5,200
Interest on Investments	4,000	4,000	3,953	(47)
Interest on Loans Receivable	60,000	60,000	45,884	(14,116)
Rents	9,650	9,650	2,972	(6,678)
Other Receipts	100	100	84,163	84,063
Total Revenues	<u>135,431</u>	<u>135,431</u>	<u>204,286</u>	<u>68,855</u>
EXPENDITURES				
Current				
Economic Development	<u>156,431</u>	<u>156,431</u>	<u>225,499</u>	<u>69,068</u>
Total Expenditures	<u>156,431</u>	<u>156,431</u>	<u>225,499</u>	<u>69,068</u>
REVENUES UNDER EXPENDITURES	<u>(21,000)</u>	<u>(21,000)</u>	<u>(21,213)</u>	<u>(213)</u>
OTHER FINANCING SOURCES				
Transfers In	<u>21,000</u>	<u>21,000</u>	<u>21,000</u>	
Total Other Financing Sources	<u>21,000</u>	<u>21,000</u>	<u>21,000</u>	
NET CHANGE IN FUND BALANCES			(213)	(213)
FUND BALANCE, JANUARY 1	<u>1,929,068</u>	<u>1,929,068</u>	<u>1,929,068</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 1,929,068</u>	<u>\$ 1,929,068</u>	<u>\$ 1,928,855</u>	<u>\$ (213)</u>

The notes to the required supplementary information are an integral part of this schedule.

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

NOTE 1. LEGAL COMPLIANCE-BUDGETS

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

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

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

Appropriations are authorized by the city council at the function and activity level within an individual fund, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. The city administrator 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 change in the total budget of each fund must be approved by a majority vote of the city council.

NOTE 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2013, expenditures exceeded appropriations in the general fund and the economic development revolving loan fund by \$205,294 and \$69,068 respectively. The majority of the over expenditures were covered by greater than expected revenues.

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

Exhibit B-1

	Special Revenue Funds Exhibit C-1	Debt Service Funds Exhibit C-3	Capital Projects Funds Exhibit C-5	Permanent Fund	Total Nonmajor Governmental Funds Exhibit A-3
ASSETS					
Cash and Investments	\$ 667,243	\$ 1,766,171	\$ 627,831	\$ 53,374	\$ 3,114,619
Accounts Receivable	3,918		550		4,468
Tax Receivable - Current	4,430	6,419	3,216		14,065
Tax Receivable - Delinquent	13,912	2,010	1,006		16,928
Special Assessments Receivable					
Delinquent		9,157			9,157
Deferred		2,810,042	27,529		2,837,571
Notes Receivable			25,112		25,112
TOTAL ASSETS	\$ 689,503	\$ 4,593,799	\$ 685,244	\$ 53,374	\$ 6,021,920
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 13,822		\$ 1,924		\$ 15,746
Accrued Payroll	2,629				2,629
Due to Other Funds	2,934	65,722	158,077		226,733
Total Liabilities	19,385	65,722	160,001		245,108
Deferred Inflows of Resources					
Deferred Revenue	13,912	2,821,209	28,535		2,863,656
Total Deferred Inflows of Resources	13,912	2,821,209	28,535		2,863,656
Fund Balance					
Nonspendable - Endowment				50,000	50,000
Restricted for:					
TIF District	402,334				402,334
Marketing	17,029				17,029
Debt Service		1,756,268			1,756,268
Committed for:					
Library	73,550				73,550
Fire and Rescue	96,974				96,974
Storm Sewer	69,253				69,253
Assigned					
Capital Projects			304,357		304,357
Fairgrounds			124,345		124,345
PACC			70,000		70,000
Park				3,374	3,374
Unassigned	(2,934)	(49,400)	(1,994)		(54,328)
Total Fund Balance	656,206	1,706,868	496,708	53,374	2,913,156
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 689,503	\$ 4,593,799	\$ 685,244	\$ 53,374	\$ 6,021,920

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

Exhibit B-2

	Special Revenue Funds <u>Exhibit C-2</u>	Debt Service Funds <u>Exhibit C-4</u>	Capital Projects Funds <u>Exhibit C-6</u>	Permanent Fund	Total Nonmajor Governmental Funds <u>Exhibit A-5</u>
REVENUES					
Property Taxes	\$ 697,965	\$ 336,031	\$ 178,890	\$	\$ 1,212,886
Hotel/Motel Tax	36,297				36,297
Special Assessments		473,329	5,978		479,307
Intergovernmental - Federal	2,000	15,273	2,488		19,761
Intergovernmental - State	48,257		55,737		103,994
Intergovernmental - Local	128,536		4,739		133,275
Charges for Services	103,387				103,387
Miscellaneous					
Interest on Investments	4,461	9,050	2,228	3,500	19,239
Rent		68,870	17,400		86,270
Contributions	19,148		88,404		107,552
Reimbursements	3,385		55,847		59,232
Other Receipts	14,537		2,100		16,637
Total Revenues	<u>1,057,973</u>	<u>902,553</u>	<u>413,811</u>	<u>3,500</u>	<u>2,377,837</u>
EXPENDITURES					
Current					
Public Safety	248,561				248,561
Public Works	36,164				36,164
Culture and Recreation	178,376			3,661	182,037
Economic Development	227,879				227,879
Debt					
Principal		891,300	60,000		951,300
Interest		281,480	7,102		288,582
Fees		4,872			4,872
Capital Outlay					
General Government			28,225		28,225
Public Safety	23,429		7,653		31,082
Public Works	5,100		295,350		300,450
Culture and Recreation			67,357		67,357
Airport			6,512		6,512
Total Expenditures	<u>719,509</u>	<u>1,177,652</u>	<u>472,199</u>	<u>3,661</u>	<u>2,373,021</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>338,464</u>	<u>(275,099)</u>	<u>(58,388)</u>	<u>(161)</u>	<u>4,816</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	4,968	508,805	403,718		917,491
Transfers Out	(396,092)		(49,590)		(445,682)
Total Other Financing Sources (Uses)	<u>(391,124)</u>	<u>508,805</u>	<u>354,128</u>		<u>471,809</u>
NET CHANGE IN FUND BALANCES	<u>(52,660)</u>	<u>233,706</u>	<u>295,740</u>	<u>(161)</u>	<u>476,625</u>
FUND BALANCE, JANUARY 1, AS PREVIOUSLY STATED	213,062	1,473,162	200,968	53,535	1,940,727
ADJUSTMENT	<u>495,804</u>				<u>495,804</u>
FUND BALANCE, JANUARY 1, RESTATED	<u>708,866</u>	<u>1,473,162</u>	<u>200,968</u>	<u>53,535</u>	<u>2,436,531</u>
FUND BALANCE, DECEMBER 31	<u>\$ 656,206</u>	<u>\$ 1,706,868</u>	<u>\$ 496,708</u>	<u>\$ 53,374</u>	<u>\$ 2,913,156</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 DECEMBER 31, 2013**

Exhibit C-1

	<u>Library</u>	<u>Fire and Rescue</u>	<u>CDBG</u>	<u>TIF Districts</u>	<u>Storm Sewer</u>	<u>Lodging Tax</u>	<u>Total Nonmajor Special Revenue Funds Exhibit B-1</u>
ASSETS							
Cash and Investments	\$ 79,970	\$ 100,080	\$	\$ 402,334	\$ 65,432	\$ 19,427	\$ 667,243
Accounts Receivable					3,918		3,918
Tax Receivable - Current	2,452	1,978					4,430
Tax Receivable - Delinquent	767	619		12,526			13,912
TOTAL ASSETS	\$ 83,189	\$ 102,677	\$	\$ 414,860	\$ 69,350	\$ 19,427	\$ 689,503
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities							
Accounts Payable	\$ 6,512	\$ 4,815	\$	\$	\$ 97	\$ 2,398	\$ 13,822
Accrued Payroll	2,360	269					2,629
Due to Other Funds			2,934				2,934
Total Liabilities	8,872	5,084	2,934		97	2,398	19,385
Deferred Inflows of Resources							
Deferred Revenue	767	619		12,526			13,912
Total Deferred Inflows of Resources	767	619		12,526			13,912
Fund Balance							
Restricted for:							
TIF District				402,334			402,334
Marketing						17,029	17,029
Committed for:							
Library	73,550						73,550
Fire and Rescue		96,974					96,974
Storm Sewer					69,253		69,253
Unassigned			(2,934)				(2,934)
Total Fund Balance	73,550	96,974	(2,934)	402,334	69,253	17,029	656,206
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 83,189	\$ 102,677	\$	\$ 414,860	\$ 69,350	\$ 19,427	\$ 689,503

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED DECEMBER 31, 2013**

Exhibit C-2

	<u>Library</u>	<u>Fire and Rescue</u>	<u>CDBG</u>	<u>TIF Districts</u>	<u>Storm Sewer</u>	<u>Lodging Tax</u>	<u>Total Nonmajor Special Revenue Funds Exhibit B-2</u>
REVENUES							
Property Taxes	\$ 115,678	\$ 93,291	\$	\$ 488,996	\$	\$	\$ 697,965
Hotel/Motel Tax						36,297	36,297
Intergovernmental - Federal		2,000					2,000
Intergovernmental - State							
Fire Aid		39,193					39,193
PERA	309						309
Other State Aid		8,755					8,755
Intergovernmental - Local							
Other Local Government	37,649						37,649
Township		90,887					90,887
Charges for Services	6,467	58,274			38,646		103,387
Miscellaneous							
Interest on Investments	623	88		3,344	311	95	4,461
Contributions	7,157		11,991				19,148
Reimbursements	3,085				300		3,385
Other Receipts	856	3,617	10,000		64		14,537
Total Revenues	<u>171,824</u>	<u>296,105</u>	<u>21,991</u>	<u>492,340</u>	<u>39,321</u>	<u>36,392</u>	<u>1,057,973</u>
EXPENDITURES							
Current							
Public Safety		248,561					248,561
Public Works					36,164		36,164
Culture and Recreation	178,376						178,376
Economic Development				192,879		35,000	227,879
Capital Outlay							
Public Safety		23,429					23,429
Public Works					5,100		5,100
Total Expenditures	<u>178,376</u>	<u>271,990</u>		<u>192,879</u>	<u>41,264</u>	<u>35,000</u>	<u>719,509</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(6,552)</u>	<u>24,115</u>	<u>21,991</u>	<u>299,461</u>	<u>(1,943)</u>	<u>1,392</u>	<u>338,464</u>
OTHER FINANCING SOURCES (USES)							
Transfers In				3,161	1,807		4,968
Transfers Out				(396,092)			(396,092)
Total Other Financing Sources (Uses)				<u>(392,931)</u>	<u>1,807</u>		<u>(391,124)</u>
NET CHANGE IN FUND BALANCES	<u>(6,552)</u>	<u>24,115</u>	<u>21,991</u>	<u>(93,470)</u>	<u>(136)</u>	<u>1,392</u>	<u>(52,660)</u>
FUND BALANCE, JANUARY 1, AS PREVIOUSLY STATED	80,102	72,859	(24,925)		69,389	15,637	213,062
ADJUSTMENT				495,804			495,804
FUND BALANCE, JANUARY 1, RESTATED	<u>80,102</u>	<u>72,859</u>	<u>(24,925)</u>	<u>495,804</u>	<u>69,389</u>	<u>15,637</u>	<u>708,866</u>
FUND BALANCE, DECEMBER 31	<u>\$ 73,550</u>	<u>\$ 96,974</u>	<u>\$ (2,934)</u>	<u>\$ 402,334</u>	<u>\$ 69,253</u>	<u>\$ 17,029</u>	<u>\$ 656,206</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 DECEMBER 31, 2013**

Exhibit C-3

	<u>2005 G.O. Improvement Bonds</u>	<u>2007 G.O. Improvement Bonds</u>	<u>2011A G.O. Improvement Bonds</u>	<u>1999 EDA Safety Building Bonds</u>	<u>1999 Industrial Park Improvement</u>
ASSETS					
Cash and Investments	\$ 309,115	\$ 418,085	\$ 99,635	\$ 15,819	\$ 118,815
Taxes Receivable - Current	581	1,161	399	503	
Taxes Receivable - Delinquent	182	364	125	157	
Special Assessments Receivable					
Delinquent	2,534	5,062			
Deferred	<u>226,405</u>	<u>288,263</u>	<u>650,995</u>		<u>237,255</u>
TOTAL ASSETS	<u>\$ 538,817</u>	<u>\$ 712,935</u>	<u>\$ 751,154</u>	<u>\$ 16,479</u>	<u>\$ 356,070</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Due to Other Funds	\$ _____	\$ _____	\$ _____	\$ 65,722	\$ _____
Total Liabilities	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>65,722</u>	<u>_____</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Revenue	<u>229,121</u>	<u>293,689</u>	<u>651,120</u>	<u>157</u>	<u>237,255</u>
Total Deferred Inflows of Resources	<u>229,121</u>	<u>293,689</u>	<u>651,120</u>	<u>157</u>	<u>237,255</u>
FUND BALANCE					
Restricted for Debt Service	309,696	419,246	100,034		118,815
Unassigned	<u>309,696</u>	<u>419,246</u>	<u>100,034</u>	<u>(49,400)</u>	<u>118,815</u>
Total Fund Balance	<u>309,696</u>	<u>419,246</u>	<u>100,034</u>	<u>(49,400)</u>	<u>118,815</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 538,817</u>	<u>\$ 712,935</u>	<u>\$ 751,154</u>	<u>\$ 16,479</u>	<u>\$ 356,070</u>

cont.

**CITY OF PERHAM, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 DECEMBER 31, 2013**

Exhibit C-3

	<u>Golf Course</u>	<u>2006 G.O. Bonds</u>	<u>2009B G.O. Refunding Bonds</u>	<u>2010A G.O. Improvement Bonds</u>	<u>2013 G.O. Improvement Bonds</u>	<u>Total Nonmajor Debt Service Funds Exhibit B-1</u>
ASSETS						
Cash and Investments	\$ 67,672	\$ 98,113	\$ 398,476	\$ 208,596	\$ 31,845	\$ 1,766,171
Taxes Receivable - Current			3,485	290		6,419
Taxes Receivable - Delinquent			1,091	91		2,010
Special Assessments Receivable						
Delinquent		544	1,017			9,157
Deferred		398,888	432,227	188,230	387,779	2,810,042
TOTAL ASSETS	\$ 67,672	\$ 497,545	\$ 836,296	\$ 397,207	\$ 419,624	\$ 4,593,799
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Due to Other Funds	\$	\$	\$	\$	\$	\$ 65,722
Total Liabilities						65,722
DEFERRED INFLOWS OF RESOURCES						
Deferred Revenue		399,432	434,335	188,321	387,779	2,821,209
Total Deferred Inflows of Resources		399,432	434,335	188,321	387,779	2,821,209
FUND BALANCE						
Restricted for Debt Service	67,672	98,113	401,961	208,886	31,845	1,756,268
Unassigned						(49,400)
Total Fund Balance	67,672	98,113	401,961	208,886	31,845	1,706,868
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 67,672	\$ 497,545	\$ 836,296	\$ 397,207	\$ 419,624	\$ 4,593,799

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 YEAR ENDED DECEMBER 31, 2013**

Exhibit C-4

	<u>2005 G.O. Improvement Bonds</u>	<u>2007 G.O. Improvement Bonds</u>	<u>2011A G.O. Improvement Bonds</u>	<u>1999 EDA Safety Building Bonds</u>	<u>1999 Industrial Park Improvement</u>
REVENUES					
Property Taxes	\$ 30,537	\$ 60,444	\$ 20,590	\$ 26,145	\$
Special Assessments	137,603	44,162	74,266		
Intergovernmental					
Federal					
Miscellaneous					
Interest on Investments	1,490	2,361	341	471	463
Rent					
Total Revenues	<u>169,630</u>	<u>106,967</u>	<u>95,197</u>	<u>26,616</u>	<u>463</u>
EXPENDITURES					
Principal	95,000	105,000	85,000		11,300
Interest	38,779	53,463	31,936	2,490	12,154
Fees	766	656	650		
Total Expenditures	<u>134,545</u>	<u>159,119</u>	<u>117,586</u>	<u>2,490</u>	<u>23,454</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>35,085</u>	<u>(52,152)</u>	<u>(22,389)</u>	<u>24,126</u>	<u>(22,991)</u>
OTHER FINANCING SOURCES					
Transfers In	50,000	33,000	24,662		45,000
Total Other Financing Sources	<u>50,000</u>	<u>33,000</u>	<u>24,662</u>		<u>45,000</u>
NET CHANGE IN FUND BALANCES	85,085	(19,152)	2,273	24,126	22,009
FUND BALANCE JANUARY 1	<u>224,611</u>	<u>438,398</u>	<u>97,761</u>	<u>(73,526)</u>	<u>96,806</u>
FUND BALANCE DECEMBER 31	<u>\$ 309,696</u>	<u>\$ 419,246</u>	<u>\$ 100,034</u>	<u>\$ (49,400)</u>	<u>\$ 118,815</u>

cont.

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 YEAR ENDED DECEMBER 31, 2013**

Exhibit C-4

	<u>Golf Course</u>	<u>2006 G.O. Bonds</u>	<u>2009B G.O. Refunding Bonds</u>	<u>2010A G.O. Improvement Bonds</u>	<u>2013 G.O. Improvement Bonds</u>	<u>Total Nonmajor Debt Service Funds Exhibit B-2</u>
REVENUES						
Property Taxes	\$	\$ 407	\$ 182,849	\$ 15,059	\$	\$ 336,031
Special Assessments		69,545	84,576	31,286	31,891	473,329
Intergovernmental						
Federal				15,273		15,273
Miscellaneous						
Interest on Investments	618	473	1,695	1,138		9,050
Rent	68,870					68,870
Total Revenues	<u>69,488</u>	<u>70,425</u>	<u>269,120</u>	<u>62,756</u>	<u>31,891</u>	<u>902,553</u>
EXPENDITURES						
Principal	60,000	65,000	435,000	35,000		891,300
Interest	9,095	30,753	57,210	45,600		281,480
Fees	655	719	725	655	46	4,872
Total Expenditures	<u>69,750</u>	<u>96,472</u>	<u>492,935</u>	<u>81,255</u>	<u>46</u>	<u>1,177,652</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(262)</u>	<u>(26,047)</u>	<u>(223,815)</u>	<u>(18,499)</u>	<u>31,845</u>	<u>(275,099)</u>
OTHER FINANCING SOURCES						
Transfers In		20,000	318,743	17,400		508,805
Total Other Financing Sources		<u>20,000</u>	<u>318,743</u>	<u>17,400</u>		<u>508,805</u>
NET CHANGE IN FUND BALANCES	(262)	(6,047)	94,928	(1,099)	31,845	233,706
FUND BALANCE JANUARY 1	<u>67,934</u>	<u>104,160</u>	<u>307,033</u>	<u>209,985</u>		<u>1,473,162</u>
FUND BALANCE DECEMBER 31	<u>\$ 67,672</u>	<u>\$ 98,113</u>	<u>\$ 401,961</u>	<u>\$ 208,886</u>	<u>\$ 31,845</u>	<u>\$ 1,706,868</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING BLANCE SHEET
 NONMAJOR CAPITAL PROJECT FUNDS
 DECEMBER 31, 2013**

Exhibit C-5

	<u>Interchange Project</u>	<u>Permanent Improvement</u>	<u>Clearwater 2nd Addition</u>	<u>Total Nonmajor Capital Projects Funds Exhibit B-1</u>
ASSETS				
Cash and Investments	\$	\$ 627,831	\$	\$ 627,831
Accounts Receivable		550		550
Taxes Receivable - Current		3,216		3,216
Taxes Receivable - Delinquent		1,006		1,006
Special Assessments Receivable - Deferred		27,529		27,529
Notes Receivable		25,112		25,112
		<u> </u>		<u> </u>
TOTAL ASSETS	<u>\$</u>	<u>\$ 685,244</u>	<u>\$</u>	<u>\$ 685,244</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$	\$ 1,576	\$ 348	\$ 1,924
Due to Other Funds	1,646	156,431		158,077
Total Liabilities	<u>1,646</u>	<u>158,007</u>	<u>348</u>	<u>160,001</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue		28,535		28,535
Total Deferred Inflows of Resources		<u>28,535</u>		<u>28,535</u>
FUND BALANCE				
Assigned for Capital Projects		304,357		304,357
Assigned for Fairgrounds		124,345		124,345
Assigned for PACC		70,000		70,000
Unassigned	(1,646)		(348)	(1,994)
Total Fund Balance	<u>(1,646)</u>	<u>498,702</u>	<u>(348)</u>	<u>496,708</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$</u>	<u>\$ 685,244</u>	<u>\$</u>	<u>\$ 685,244</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECT FUNDS
 YEAR ENDED DECEMBER 31, 2013**

Exhibit C-6

	<u>2011 Street Improvement</u>	<u>Interchange Project</u>	<u>Permanent Improvement</u>	<u>Clearwater 2nd Addition</u>	<u>Total Nonmajor Capital Projects Funds Exhibit B-2</u>
REVENUES					
Property Taxes	\$	\$	\$ 178,890	\$	\$ 178,890
Special Assessments			5,978		5,978
Intergovernmental - Federal			2,488		2,488
Intergovernmental - State					
State Grants and Aids		55,737			55,737
Other Local Government		4,739			4,739
Miscellaneous					
Interest on Investments	71	65	2,092		2,228
Rents			17,400		17,400
Contributions			88,404		88,404
Reimbursements	249	54,595	1,003		55,847
Other Receipts			2,100		2,100
Total Revenues	<u>320</u>	<u>115,136</u>	<u>298,355</u>		<u>413,811</u>
EXPENDITURES					
Debt Service					
Principal			60,000		60,000
Interest			7,102		7,102
Capital Outlay					
General Government			28,225		28,225
Public Safety			7,653		7,653
Public Works		200,421	75,886	19,043	295,350
Culture and Recreation			67,357		67,357
Airport			6,512		6,512
Total Expenditures		<u>200,421</u>	<u>252,735</u>	<u>19,043</u>	<u>472,199</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>320</u>	<u>(85,285)</u>	<u>45,620</u>	<u>(19,043)</u>	<u>(58,388)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	44,308		340,715	18,695	403,718
Transfers Out			(49,590)		(49,590)
Total Other Financing Sources (Uses)	<u>44,308</u>		<u>291,125</u>	<u>18,695</u>	<u>354,128</u>
NET CHANGE IN FUND BALANCES	44,628	(85,285)	336,745	(348)	295,740
FUND BALANCE, JANUARY 1	<u>(44,628)</u>	<u>83,639</u>	<u>161,957</u>		<u>200,968</u>
FUND BALANCE, DECEMBER 31	<u>\$</u>	<u>\$ (1,646)</u>	<u>\$ 498,702</u>	<u>\$ (348)</u>	<u>\$ 496,708</u>

CITY OF PERHAM, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
YEAR ENDED DECEMBER 31, 2013

	Beginning Balance	Revenues	Expenditures	Transfer In	Transfer Out	Long Term Debt Issued	Sale of Capital Assets	Restatement/ Adjustment	Ending Balance
Primary Government Governmental Funds									
General	\$ 564,175	\$ 1,445,729	\$ 1,593,833	\$ 232,030	\$ 127,506		\$ 164,966		\$ 685,561
Special Revenue									
Library	80,102	171,824	178,376						73,550
Fire and Rescue	72,859	296,105	271,990						96,974
Economic Development									
Revolving Loan	1,929,068	204,286	225,499	21,000					1,928,855
CDBG	(24,925)	21,991							(2,934)
TIF District 2-24 Housing	85,642							(85,642)	
Municipal Development District #2	386,111							(386,111)	
Municipal Development District #14	24,051							(24,051)	
TIF Districts		492,340	192,879	3,161	396,092			495,804	402,334
Storm Sewer	69,389	39,321	41,264	1,807					69,253
Lodging Tax	15,637	36,392	35,000						17,029
Debt Service									
1996 IRP Loan Program	2,005,611	253,276	74,067		21,000				2,163,820
2007 G.O. Improvement Bonds	438,398	106,967	159,119	33,000					419,246
1999 EDA Safety Building Bonds	(73,526)	26,616	2,490						(49,400)
1999 Industrial Park Improvement	96,806	463	23,454	45,000					118,815
Golf Course	67,934	69,488	69,750						67,672
2005 G.O. Improvement Bonds	224,611	169,630	134,545	50,000					309,696
2006 G.O. Bonds	104,160	70,425	96,472	20,000					98,113
2009 G.O. Improvement Bonds	376,977	107,664	222,430	85,000	173,456				173,755
2009B G.O. Refunding Bonds	307,033	269,120	492,935	318,743					401,961
2010A G.O. Improvement Bonds	209,985	62,756	81,255	17,400					208,886
2011A G.O. Improvement Bonds	97,761	95,197	117,586	24,662					100,034
2012A G.O. Refunding Bonds	2,200,177	3,769	1,382,091						821,855
2013 G.O. Improvement Bonds		31,891	46						31,845
Capital Projects									
Permanent Improvement	161,957	298,355	252,735	340,715	49,590				498,702
2011 Street Improvement	(44,628)	320		44,308					
Interchange Project	83,639	115,136	200,421						(1,646)
2013 Improvement Project	(2,436)		942,151			1,115,000			170,413
Clearwater 2nd Addition			19,043	18,695					(348)
Permanent Fund	53,535	3,500	3,661						53,374
Total Governmental Funds	9,510,103	4,392,561	6,813,092	1,255,521	767,644	1,115,000	164,966		8,857,415

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

	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Long Term Debt Issued</u>	<u>Sale of Capital Assets</u>	<u>Restatement/ Adjustment</u>	<u>Ending Balance</u>
Proprietary Funds									
Municipal Liquor	1,246,102	2,947,057	2,577,780		190,750				1,424,629
Gas	2,207,904	7,522,553	6,876,677		180,370			(332,415)	2,340,995
Sewer and Wastewater	5,539,474	3,589,837	967,323		41,524			(7,060)	8,113,404
Water	4,663,987	587,439	503,057		75,233				4,673,136
Recycling	105,103	81,057	71,456						114,704
Total Proprietary Funds	<u>13,762,570</u>	<u>14,727,943</u>	<u>10,996,293</u>		<u>487,877</u>			<u>(339,475)</u>	<u>16,666,868</u>
Total Primary Government	<u>\$ 23,272,673</u>	<u>\$ 19,120,504</u>	<u>\$ 17,809,385</u>	<u>\$ 1,255,521</u>	<u>\$ 1,255,521</u>	<u>\$ 1,115,000</u>	<u>\$ 164,966</u>	<u>\$ (339,475)</u>	<u>\$ 25,524,283</u>
Component Units									
Perham Area Community Center	\$ 1,780,088	\$ 1,041,601	\$ 852,240	\$	\$	\$	\$	\$	\$ 1,969,449
Perham Golf Course	45,046	648,887	680,481						13,452
Total Component Units	<u>\$ 1,825,134</u>	<u>\$ 1,690,488</u>	<u>\$ 1,532,721</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,982,901</u>

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

BOND INDEBTEDNESS	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2012	Issued 2013	Retired 2013	Balance 12/31/2013	Principal 2014	Interest 2014
General Obligation Bonds										
G.O. Improvement Bonds of 1999	4.3	12/21/99	1-1-2014/29	\$ 382,000	\$ 277,800	\$	\$ 11,300	\$ 266,500	\$ 11,800	\$ 11,659
G.O. Improvement Bonds of 2005A		10/12/05		1,745,000	1,460,000		1,460,000			
G.O. Improvement Bonds of 2007A	4.0 - 4.4	08/01/07	2-1-2014/23	1,695,000	1,315,000		105,000	1,210,000	110,000	49,134
G.O. Improvement Bonds of 2009A	3.5 - 5.5	09/01/09	2-1-2014/25	1,735,000	1,460,000		160,000	1,300,000	170,000	56,400
G.O. Improvement Bonds of 2010A	2.7 - 5.5	07/01/10	2-1-2014/26	1,030,000	990,000		35,000	955,000	35,000	44,655
G.O. Bonds of 2006A	4.1 - 4.4	11/02/06	2-1-2014/22	970,000	755,000		65,000	690,000	690,000	14,627
G.O. Bonds of 2006A	4.1 - 4.4	11/02/06	2-1-2014/22	310,000	230,000		20,000	210,000	210,000	4,484
G.O. Refunding & Crossover, 2009B	2.5 - 3.2	11/01/09	2-1-2014	245,000	125,000		60,000	65,000	65,000	1,625
G.O. Refunding & Crossover, 2009B	2.5 - 3.2	11/01/09	2-1-2014/19	505,000	400,000		55,000	345,000	55,000	9,950
G.O. Refunding & Crossover, 2009B	2.5 - 3.2	11/01/09	2-1-2014/19	3,045,000	2,365,000		435,000	1,930,000	440,000	47,010
G.O. Refunding & Crossover, 2012	0.45 - 2.45	03/14/12	2-1-2014/26	2,120,000	2,120,000			2,120,000	115,000	25,576
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2014/26	337,745	327,000		21,000	306,000	22,000	4,284
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2014/26	148,475	144,000		9,000	135,000	10,000	1,877
G.O. Improvement Bonds of 2011A	2.0-3.4	09/01/11	2-1-2014/27	990,000	990,000		55,000	935,000	55,000	24,473
G.O. Improvement Bonds 2013	2.6-3.8	10/02/13	2-1-2015/29	1,115,000		1,115,000		1,115,000		29,937
Total					<u>12,958,800</u>	<u>1,115,000</u>	<u>2,491,300</u>	<u>11,582,500</u>	<u>1,988,800</u>	<u>325,691</u>
General Obligation Revenue Bonds										
G.O. Utility Revenue Bond, 2008A	3.7 - 4.7	11/01/08	2-1-2014/24	860,000	730,000		50,000	680,000	50,000	28,921
G.O. Revenue Bonds - PFA	2.8	11/19/99	8-20-2014/19	607,436	259,000		34,000	225,000	35,000	6,278
G.O. Bonds (MPFA)	1	11/16/12	8-20-2014/42	2,442,879		2,442,879	31,633	2,411,246	96,000	25,370
G.O. Bonds (MPFA)	2.7	01/28/09	8-20-2014/28	2,422,209	2,098,000		106,000	1,992,000	109,000	54,641
G.O. Improvement Bonds 2012B	0.9 - 2.4	03/28/12	11-1-2014/20	835,000	755,000		120,000	635,000	125,000	10,565
Total					<u>3,842,000</u>	<u>2,442,879</u>	<u>341,633</u>	<u>5,943,246</u>	<u>415,000</u>	<u>125,775</u>
Revenue Bonds										
Gas Utility Refunding Bond 2009C	2.8 - 4.7	11/17/09	6-1-2014/29	4,060,000	3,630,000		160,000	3,470,000	165,000	141,667
Total					<u>3,630,000</u>		<u>160,000</u>	<u>3,470,000</u>	<u>165,000</u>	<u>141,667</u>
Total Bonds					<u>20,430,800</u>	<u>3,557,879</u>	<u>2,992,933</u>	<u>20,995,746</u>	<u>2,568,800</u>	<u>593,133</u>
Loans										
U.S. Department of Agriculture	1.0	11/28/94	11-28-2014/24	1,000,000	460,329		36,520	423,809	36,861	4,263
U.S. Department of Agriculture	1.0	04/24/98	4-24-2014/28	775,000	469,007		27,187	441,820	27,435	4,441
Contract for Deed	1.3	07/01/11	7-1-2014/18	312,000	233,984		37,750	196,234	38,240	2,510
Total					<u>1,163,320</u>		<u>101,457</u>	<u>1,061,863</u>	<u>102,536</u>	<u>11,214</u>
Other Long-term Debt										
Lease-Purchase Agreement	2.75	11/01/11	4-1-2014/17	777,138	685,688		129,726	555,962	133,330	13,922
Total Primary Government Indebtedness					<u>22,279,808</u>	<u>3,557,879</u>	<u>3,224,116</u>	<u>22,613,571</u>	<u>2,804,666</u>	<u>618,269</u>
Loans Payable										
United Community Bank	5.0	11/15/04	10-15-2015/21	300,000	180,000			180,000		3,159
VGM Financial Services		04/28/12	4-28-2014/16	93,136	74,508		18,627	55,881	18,624	
John Deere		07/02/05		13,883	1,927		1,927			
Total Component Unit Indebtedness					<u>256,435</u>		<u>20,554</u>	<u>235,881</u>	<u>18,624</u>	<u>3,159</u>
Total Indebtedness					<u>\$ 22,536,243</u>	<u>\$ 3,557,879</u>	<u>\$ 3,244,670</u>	<u>\$ 22,849,452</u>	<u>\$ 2,823,290</u>	<u>\$ 621,428</u>



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Independent Auditor's Report on Minnesota Legal Compliance

To the Honorable Mayor
and Members of the City Council
City of Perham
Perham, 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 Perham, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2014. We did not express an opinion on the discretely presented component units because we were not engaged to audit the discretely presented component units.

Legal Compliance

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

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

Purpose of the Report

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

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

June 19, 2014



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Perham, Minnesota, as of and for the year ended December 31, 2013, which collectively comprise the City of Perham, Minnesota's basic financial statements and have issued our report thereon dated June 19, 2014. We did not express an opinion on the discretely presented component units because we were not engaged to audit the discretely presented component units. 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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-001 that we consider to be a significant deficiency.

Compliance and Other Matters

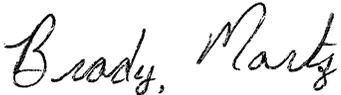
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

The City's Response to Finding

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

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



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

June 19, 2014



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Perham's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

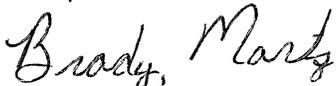
Management of the City of Perham, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Purpose of the Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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

June 19, 2014

**CITY OF PERHAM, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass- Through Number	Federal CFDA Number	Amount
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Assistance to Firefighters Grant	EMW-2011-FR-00193	97.044	\$ 2,000
Passed-Through Minnesota Commissioner of Public Safety Hazard Mitigation Grant Program	1921.06-F	97.039	<u>2,488</u>
Total U.S. Department of Homeland Security			<u>4,488</u>
<u>Environmental Protection Agency</u>			
Passed-Through Minnesota Public Facilities Authority: Capitalization Grants for Clean Water State Revolving Funds	MPFA-11-0011-R-FY13	66.458	<u>2,442,879</u>
Total Environmental Protection Agency			<u>2,442,879</u>
<u>U.S. Department of Commerce</u>			
Direct Program:			
Public Works and Economic Development Facilities	0605677-00	11.300	<u>2,022,071</u>
Total U.S. Department of Commerce			<u>2,022,071</u>
<u>U.S. Department of Health and Human Services</u>			
Passed-Through Clay County Community Transformation Grant		93.531	<u>9,696</u>
Total U.S. Department of Health and Human Services			<u>9,696</u>
TOTAL FEDERAL AWARDS			<u>\$ 4,479,134</u>
Reconciliation of the Schedule of Expenditures of Federal Awards to the Schedule of Intergovernmental Revenue:			
Schedule of Expenditures of Federal Awards - Total Federal Awards			\$ 4,479,134
Build America Bond - Interest Refunded			35,990
Less: Loan Proceeds			<u>(2,442,879)</u>
			<u>\$ 2,072,245</u>

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

**CITY OF PERHAM, MINNESOTA
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 DECEMBER 31, 2013**

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Perham, Minnesota and is presented on the accrual basis of accounting except for the Capitalization Grants for Drinking Water State Revolving Funds and the Capitalization Grants for Clean Water State Revolving Funds, which in accordance with Circular A-133, recognize expenses when loan proceeds are received. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2. LOANS OUTSTANDING

The City had the following loan balance outstanding at December 31, 2013. The balance of loans issued in prior year was \$486,220. During the year, loans totaling \$2,442,879 were issued; the proceeds were reported on the schedule of expenditures of federal awards.

<u>Program Title</u>	<u>Issue Amount</u>	<u>CFDA</u>	<u>Amount Outstanding</u>
Capitalization Grants for Clean Water State Revolving Funds	\$ 327,000	66.458	\$ 306,000
Capitalization Grants for Drinking Water State Revolving Funds	144,000	66.468	135,000
Capitalization Grants for Clean Water State Revolving Funds	2,442,879	66.458	2,442,879

NOTE 3. SUBRECIPIENTS

During 2013, the City did not pass any federal money to subrecipients.

**CITY OF PERHAM, MINNESOTA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2013**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Governmental Activities	Unmodified
	Business-type Activities	Unmodified
	Perham Area Community Center	Disclaimer
	Perham Golf Course	Disclaimer
	General Fund	Unmodified
	Economic Development Revolving Loan Fund	Unmodified
	1996 IRP Loan Program Fund	Unmodified
	2009 G.O. Improvement Bonds Fund	Unmodified
	2013 Improvement Project Fund	Unmodified
	2012A G.O. Refunding Bonds Fund	Unmodified
	Gas Fund	Unmodified
	Sewer and Wastewater Fund	Unmodified
	Water Fund	Unmodified
	Municipal Liquor Fund	Unmodified
	Aggregate Remaining Funds	Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes no

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

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

11.300	Public Works Economic Development Facilities
66.458	Capitalization Grant for Clean Water State Revolving Loan

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

**CITY OF PERHAM, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
DECEMBER 31, 2013**

Section II-Financial Statement Findings

2013-001

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. 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.

Cause

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

Effect

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

Recommendation

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

Corrective Action Plan Prepared by the City

Correcting Plan: Management recognizes the significant deficiency and believes it is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Explanation of Disagreement: There is essentially no disagreement with the finding.

Official Responsible: The city council is responsible for carrying out the corrective action plan.

Completion Date: The City will review on an annual basis.

Monitor Plan: The city council will monitor completion of the corrective action plan.

Section III-Federal Award Findings and Questioned Costs

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

**CITY OF PERHAM, MINNESOTA
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013**

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