

**CITY OF PERHAM
PERHAM, MINNESOTA**

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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CITY OF PERHAM, MINNESOTA
CITY OFFICIALS
YEAR ENDED DECEMBER 31, 2014

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, 2014, 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 City’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for 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, 2014, and the respective changes in financial position and, where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Perham, Minnesota's basic financial statements. The combining nonmajor fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 basic 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 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 8, 2015, 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's internal control over financial reporting and compliance.



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

June 8, 2015

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

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, 2014.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$39,150,850 (net position). Of this amount, \$8,240,473 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 \$761,902, or 49% of the total general fund expenditures, an increase of \$76,341 over the year ended 2013.

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 are comprised of 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 City'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, 2014**

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 28 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, 2014A G.O. Refunding Bonds, and Permanent Improvement Fund, all of which are considered major funds. Data from the other 22 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, 2014**

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 \$39,150,850 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 13,041,682	\$ 12,743,201	\$ 6,864,114	\$ 5,739,704	\$ 19,905,796	\$ 18,482,905
Capital Assets	<u>20,802,370</u>	<u>20,469,780</u>	<u>22,510,252</u>	<u>22,643,838</u>	<u>43,312,622</u>	<u>43,113,618</u>
Total Assets	<u>33,844,052</u>	<u>33,212,981</u>	<u>29,374,366</u>	<u>28,383,542</u>	<u>63,218,418</u>	<u>61,596,523</u>
Long-term Liabilities	11,294,029	12,496,471	10,574,701	10,213,443	21,868,730	22,709,914
Other Liabilities	<u>719,811</u>	<u>300,183</u>	<u>1,479,027</u>	<u>1,503,231</u>	<u>2,198,838</u>	<u>1,803,414</u>
Total Liabilities	<u>12,013,840</u>	<u>12,796,654</u>	<u>12,053,728</u>	<u>11,716,674</u>	<u>24,067,568</u>	<u>24,513,328</u>
Net Position						
Net Investment in Capital						
Assets	11,151,722	9,900,494	11,992,514	12,493,396	23,144,236	22,393,890
Restricted	7,015,623	8,071,579	750,518	626,854	7,766,141	8,698,433
Unrestricted	<u>3,662,867</u>	<u>2,444,254</u>	<u>4,577,606</u>	<u>3,546,618</u>	<u>8,240,473</u>	<u>5,990,872</u>
Total Net Position	<u>\$ 21,830,212</u>	<u>\$ 20,416,327</u>	<u>\$ 17,320,638</u>	<u>\$ 16,666,868</u>	<u>\$ 39,150,850</u>	<u>\$ 37,083,195</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 are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets 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, 2014**

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues						
Charges for Services	\$ 465,935	\$ 590,664	\$ 15,218,758	\$ 12,488,037	\$ 15,684,693	\$ 13,078,701
Operating Grants and Contributions	432,030	431,609			432,030	431,609
Capital Grants and Contributions	166,133	688,378		2,022,071	166,133	2,710,449
General Revenues						
Taxes	1,806,287	1,744,914			1,806,287	1,744,914
Unrestricted State Aid	584,308	460,341	4,549	316,522	588,857	776,863
Unrestricted Investment Earnings	149,134	185,421	29,123	27,996	178,257	213,417
Gain on Sale of Capital Assets	914,735	163,073	91,132	46,453	1,005,867	209,526
Other General Revenue	193,144	419,561			193,144	419,561
Total Revenues	4,711,706	4,683,961	15,343,562	14,901,079	20,055,268	19,585,040
Expenses						
General Government	467,450	487,892			467,450	487,892
Public Safety	941,691	925,134			941,691	925,134
Public Works	795,706	1,072,637			795,706	1,072,637
Culture and Recreation	595,938	571,534			595,938	571,534
Economic Development	471,821	458,440			471,821	458,440
Airport	135,550	130,414			135,550	130,414
Interest on Long-term Debt	329,237	334,413			329,237	334,413
Municipal Liquor			2,673,213	2,577,780	2,673,213	2,577,780
Gas			9,622,554	6,876,677	9,622,554	6,876,677
Sewer and Wastewater			1,262,868	967,323	1,262,868	967,323
Water			620,788	676,193	620,788	676,193
Recycling			70,797	71,456	70,797	71,456
Total Expenses	3,737,393	3,980,464	14,250,220	11,169,429	17,987,613	15,149,893
Change in Net Position Before Transfers	974,313	703,497	1,093,342	3,731,650	2,067,655	4,435,147
Transfers	439,572	487,877	(439,572)	(487,877)		
Change in Net Position	1,413,885	1,191,374	653,770	3,243,773	2,067,655	4,435,147
Net Position - January 1 as Previously Stated	20,416,327	19,369,544	16,666,868	13,762,570	37,083,195	33,132,114
Adjustment		(144,591)		(339,475)		(484,066)
Net Position - January 1, Restated	20,416,327	19,224,953	16,666,868	13,423,095	37,083,195	32,648,048
Net Position - December 31	\$ 21,830,212	\$ 20,416,327	\$ 17,320,638	\$ 16,666,868	\$ 39,150,850	\$ 37,083,195

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

Governmental activities. Governmental activities increased the City's net position by \$1,413,885. 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 \$653,770. Key elements of this increase are as follows:

- The gas, water, sewer and wastewater, and liquor store funds increased due to operating revenues exceeding expenditures

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

	Major Funds			
	Fund Balance / Net Position		Increase (Decrease)	Percentage Increase (Decrease)
	12/31/2014	(Restated) 12/31/2013		
Governmental Funds				
General Fund	\$ 761,902	\$ 685,561	\$ 76,341	11%
Economic Development				
Revolving Loan	1,895,302	1,928,855	(33,553)	-2%
1996 IRP Loan Program	2,127,967	2,163,820	(35,853)	-2%
2009 G.O. Improvement Bonds	154,307	173,755	(19,448)	-11%
2014 Refunding Bonds	995,234		995,234	100%
Permanent Improvement	955,355	498,702	456,653	92%
Proprietary Funds				
Gas	2,515,807	2,340,995	174,812	7%
Sewer and Wastewater	8,207,051	8,113,404	93,647	1%
Water	4,792,656	4,673,136	119,520	3%
Municipal Liquor	1,688,793	1,424,629	264,164	19%

- The general fund increased as budgeted and due to ice and snow expenses being down. The City also received insurance dividends during the year.
- The permanent improvement fund increased due to the sale of the public works garage. The proceeds will be used in 2015 for the construction of a new public works facility.
- The gas fund and liquor store fund increased due to operating revenues exceeding expenditures.

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

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, 2014, amounts to \$43,312,622 (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			
	2014	2013	2014	2013	2014	2013
Land	\$ 541,025	\$ 600,524	\$ 1,524,867	\$ 1,548,222	\$ 2,065,892	\$ 2,148,746
Construction In Process	456,319	919,905	465		456,784	919,905
Buildings	3,100,781	3,070,510	812,623	837,179	3,913,404	3,907,689
Improvements Other Than Buildings	14,422,520	13,727,031	19,357,349	19,795,717	33,779,869	33,522,748
Machinery and Equipment	2,281,725	2,151,810	814,948	462,720	3,096,673	2,614,530
Total	\$ 20,802,370	\$ 20,469,780	\$ 22,510,252	\$ 22,643,838	\$ 43,312,622	\$ 43,113,618

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

- Completion of the wastewater facilities expansion project.
- Gas line extensions.
- Fire Tanker Truck.

Additional information on the City's capital assets can be found in Note 4 of this report.

Long-term Liabilities. At the end of the current fiscal year, the City had \$21,650,643 in bonds and other long-term obligations.

Outstanding Debt

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ 9,873,700	\$ 10,962,500	\$ 480,000	\$ 620,000	\$ 10,353,700	\$ 11,582,500
General Obligation Revenue Bonds	510,000	635,000	6,100,034	5,308,246	6,610,034	5,943,246
Revenue Bonds			3,305,000	3,470,000	3,305,000	3,470,000
Loans Payable	801,283	865,629	157,994	196,234	959,277	1,061,863
Lease/Purchase Agreement			422,632	555,962	422,632	555,962
Total	\$ 11,184,983	\$ 12,463,129	\$ 10,465,660	\$ 10,150,442	\$ 21,650,643	\$ 22,613,571

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

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

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. Increased demand within the City may also require large capital replacement and expansion expenses over the next few years.

Generally, the economic conditions of the community are stable. The city has experienced major additions in both housing and industry. The 2014 building permits showed significant additions. Residential permits totaled over \$4,357,000 with major developments, housing and apartment units. Commercial permits totaled over \$15,233,000 with major industrial additions leading to an increase of job growth. Job growth is steadily increasing. Perham has added 548 jobs in the past four years. This averages to 3.55% job growth per year for the four year period. Total employment in the second quarter of 2014 equaled 4,410 jobs. 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, 2014**

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	\$ 6,128,752	\$ 3,703,161	\$ 9,831,913	\$ 551,319	\$ 10,104
Investments in Escrow	994,565	542,740	1,537,305		
Receivables					
Accounts (Net of Allowance)	217,601	1,076,477	1,294,078	30,922	12,457
Interest Receivable	11,761		11,761		
Current Taxes	8,283		8,283		
Delinquent Taxes	11,252		11,252		
Special Assessments	3,393,590	6,072	3,399,662		
Notes Receivable (Net of Allowance)	2,517,348	139,085	2,656,433		
Internal Balances	(313,656)	313,656			
Due from Other Governments	72,186		72,186		
Inventory		332,405	332,405	1,222	20,459
Restricted Cash:					
Bond Covenants		750,518	750,518		
Deferred Charges				953	
Capital Assets					
Land	541,025	1,524,867	2,065,892	41,130	
Construction In Process	456,319	465	456,784		
Buildings	4,905,888	1,002,850	5,908,738	2,840,343	
Improvements Other than Buildings	18,952,177	26,971,240	45,923,417		269,216
Machinery and Equipment	3,827,051	1,732,236	5,559,287	579,573	726,146
Less: Accumulated Depreciation	(7,880,090)	(8,721,406)	(16,601,496)	(1,906,329)	(624,953)
Total Capital Assets, Net of Depreciation	20,802,370	22,510,252	43,312,622	1,554,717	370,409
TOTAL ASSETS	33,844,052	29,374,366	63,218,418	2,139,133	413,429
LIABILITIES					
Accounts Payable	382,829	1,336,445	1,719,274	19,816	13,263
Accrued Payroll	25,626	17,202	42,828	33,654	
Revolving Line of Credit					147,825
Consumer Deposits		60,150	60,150		
Unearned Revenue		2,895	2,895	143,141	2,691
Accrued Interest Payable	111,356	62,335	173,691		
Due to Other Governments	200,000		200,000		
Noncurrent Liabilities					
Due Within One Year	1,298,740	732,206	2,030,946		40,124
Due in More than One Year	9,995,289	9,842,495	19,837,784		224,900
TOTAL LIABILITIES	12,013,840	12,053,728	24,067,568	196,611	428,803
NET POSITION					
Net Investment in Capital Assets	11,151,722	11,992,514	23,144,236	1,554,716	285,385
Restricted for:					
Park	50,000		50,000		
TIF Districts	428,348		428,348		
Development	18,343		18,343		
Lodging Tax	22,725		22,725		
Debt Service	6,496,207		6,496,207		
Bond Covenants		750,518	750,518		
Unrestricted	3,662,867	4,577,606	8,240,473	387,806	(300,759)
TOTAL NET POSITION	\$ 21,830,212	\$ 17,320,638	\$ 39,150,850	\$ 1,942,522	\$ (15,374)

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

**CITY OF PERHAM, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

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	\$ 467,450	\$ 178,126	\$ 13,563	\$	\$ (275,761)	\$	\$ (275,761)	\$	\$
Public Safety	941,691	87,962	182,013		(671,716)		(671,716)		
Public Works	795,706	40,105	4,520	95,803	(655,278)		(655,278)		
Culture and Recreation	595,938	10,534	47,050		(538,354)		(538,354)		
Economic Development	471,821	66,967	113,116		(291,738)		(291,738)		
Airport	135,550	82,241	38,945	70,330	55,966		55,966		
Interest on Long-term Debt	329,237		32,823		(296,414)		(296,414)		
Total Governmental Activities	<u>3,737,393</u>	<u>465,935</u>	<u>432,030</u>	<u>166,133</u>	<u>(2,673,295)</u>		<u>(2,673,295)</u>		
<i>Business-type Activities:</i>									
Municipal Liquor	2,673,213	3,070,717				397,504	397,504		
Gas	9,622,554	9,975,681				353,127	353,127		
Sewer and Wastewater	1,262,868	1,395,838				132,970	132,970		
Water	620,788	704,612				83,824	83,824		
Recycling	70,797	71,910				1,113	1,113		
Total Business-type Activities	<u>14,250,220</u>	<u>15,218,758</u>				<u>968,538</u>	<u>968,538</u>		
Total Primary Government	<u>\$ 17,987,613</u>	<u>\$ 15,684,693</u>	<u>\$ 432,030</u>	<u>\$ 166,133</u>	<u>(2,673,295)</u>	<u>968,538</u>	<u>(1,704,757)</u>		
<i>Component Unit:</i>									
Perham Area Community Center	\$ 925,649	\$ 868,648	\$ 225	\$ 28,520				(28,256)	
Perham Golf Course	683,861	642,535	12,500						(28,826)
Total Component Units	<u>\$ 1,609,510</u>	<u>\$ 1,511,183</u>	<u>\$ 12,725</u>	<u>\$ 28,520</u>				<u>(28,256)</u>	<u>(28,826)</u>
<i>General Revenues:</i>									
Property Taxes					1,704,765		1,704,765		
Hotel/Motel Taxes					40,595		40,595		
Taxes Franchise Fees					60,927		60,927		
Unrestricted State Aid					584,308	4,549	588,857		
Unrestricted Investment Earnings					149,134	29,123	178,257	1,329	
Gain on Sale of Capital Assets					914,735	91,132	1,005,867		
Other General Revenue					193,144		193,144		
Transfers					439,572	(439,572)			
Total General Revenues and Transfers					<u>4,087,180</u>	<u>(314,768)</u>	<u>3,772,412</u>	<u>1,329</u>	
Change in Net Position					<u>1,413,885</u>	<u>653,770</u>	<u>2,067,655</u>	<u>(26,927)</u>	<u>(28,826)</u>
Net Position - January 1					<u>20,416,327</u>	<u>16,666,868</u>	<u>37,083,195</u>	<u>1,969,449</u>	<u>13,452</u>
Net Position - December 31					<u>\$ 21,830,212</u>	<u>\$ 17,320,638</u>	<u>\$ 39,150,850</u>	<u>\$ 1,942,522</u>	<u>\$ (15,374)</u>

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

**CITY OF PERHAM, MINNESOTA
BALANCE SHEET
DECEMBER 31, 2014**

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>2014A G.O. Refunding Bonds</u>	<u>Permanent Improvement</u>	<u>Total Nonmajor Funds</u>	<u>Total Govern- mental Funds</u>
ASSETS								
Cash and Investments	\$ 796,357	\$ 438,708	\$ 1,093,307	\$ 154,307	\$ 669	\$ 1,277,630	\$ 2,367,774	\$ 6,128,752
Investments in Escrow					994,565			994,565
Receivables								
Accounts	13,173	200,000				50	4,378	217,601
Interest	11,761							11,761
Tax								
Current	2,605	358				1,142	4,178	8,283
Delinquent	1,477	203				647	8,925	11,252
Special Assessments								
Delinquent	432			1,469			8,791	10,692
Noncurrent				773,145		23,529	2,586,224	3,382,898
Notes Receivable		1,466,471	1,035,617			15,260		2,517,348
Due from Other Funds	6,544							6,544
Due from Other Governments						72,186		72,186
TOTAL ASSETS	\$ 832,349	\$ 2,105,740	\$ 2,128,924	\$ 928,921	\$ 995,234	\$ 1,390,444	\$ 4,980,270	\$ 13,361,882
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES								
LIABILITIES								
Accounts Payable	\$ 49,158	\$ 7,075	\$ 957	\$	\$	\$ 288,468	\$ 37,171	\$ 382,829
Accrued Payroll	19,380	3,160					3,086	25,626
Due to Other Funds						122,445	197,755	320,200
Due to Other Governments		200,000						200,000
Total Liabilities	68,538	210,235	957			410,913	238,012	928,655
DEFERRED INFLOWS OF RESOURCES								
Unavailable Revenue	1,909	203		774,614		24,176	2,603,940	3,404,842
Total Deferred Inflows of Resources	1,909	203		774,614		24,176	2,603,940	3,404,842
FUND BALANCES								
Nonspendable - Endowment							50,000	50,000
Restricted for:								
TIF District							421,793	421,793
Marketing							22,726	22,726
Development							18,345	18,345
Debt Service			2,127,967	154,307	995,234		1,520,261	4,797,769
Committed for:								
Development		138,194						138,194
Revolving Loans		1,757,108						1,757,108
Library							77,524	77,524
Storm Sewer							89,623	89,623
Assigned for:								
Capital Projects						761,010	27,247	788,257
Fairgrounds						124,345		124,345
PACC						70,000		70,000
Park							4,238	4,238
Unassigned	761,902						(93,439)	668,463
Total Fund Balances	761,902	1,895,302	2,127,967	154,307	995,234	955,355	2,138,318	9,028,385
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 832,349	\$ 2,105,740	\$ 2,128,924	\$ 928,921	\$ 995,234	\$ 1,390,444	\$ 4,980,270	\$ 13,361,882

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, 2014**

Exhibit A-4

Total fund balances - governmental funds	\$	9,028,385
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		28,682,460
Less accumulated depreciation		(7,880,090)
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		(10,383,700)
Other Long-Term Obligations		(801,283)
Less: Issuance Discounts (to be amortized as interest expense)		(26,948)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.		(111,356)
Compensated absence payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.		(82,098)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		<u>3,404,842</u>
Net position - governmental activities	\$	<u><u>21,830,212</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, 2014

Exhibit A-5

	General	Economic Development Revolving Loan	1996 IRP Loan Program	2009 G.O. Improvement Bonds	2014A Refunding Bonds	Permanent Improvement	Total Nonmajor Funds	Total Governmental Funds
REVENUES								
Property Taxes	\$ 354,465	\$ 48,316	\$	\$ 65	\$	\$ 173,183	\$ 1,137,471	\$ 1,713,500
Hotel/Motel Tax							40,595	40,595
Special Assessments	43			87,555		5,404	401,196	494,198
Licenses and Permits	130,414							130,414
Intergovernmental								
Federal				18,319		1,856	14,504	34,679
State	674,186	247				70,330	45,195	789,958
Local	4,520						132,961	137,481
Charges for Services	113,440	23,448					113,602	250,490
Fines and Forfeitures	13,730							13,730
Miscellaneous								
Interest on Loans Receivable		47,455	56,160					103,615
Interest on Investments	5,228	5,927	2,232	1,463		3,398	18,933	37,181
Rents						19,000	73,353	92,353
Contributions	3,468	1,350				66,497	30,508	101,823
Reimbursements	48,040		361				14,240	62,641
Other Receipts	64,662	20,889				600	5,191	91,342
Total Revenues	<u>1,412,196</u>	<u>147,632</u>	<u>58,753</u>	<u>107,402</u>		<u>340,268</u>	<u>2,027,749</u>	<u>4,094,000</u>
EXPENDITURES								
Current								
General Government	390,359							390,359
Public Safety	547,210						246,554	793,764
Public Works	265,077						20,183	285,260
Culture and Recreation	266,990						176,755	443,745
Economic Development		202,185	606				222,434	425,225
Airport	90,618							90,618
Debt Service								
Principal			64,345	170,000		60,000	928,800	1,223,145
Interest			8,655	56,400		5,764	259,133	329,952
Fees				450	30,316		3,220	33,986
Capital Outlay								
General Government						17,407		17,407
Public Safety						3,333	247,809	251,142
Public Works						524,774	169,957	694,731
Culture and Recreation						79,786		79,786
Airport						314,714		314,714
Total Expenditures	<u>1,560,254</u>	<u>202,185</u>	<u>73,606</u>	<u>226,850</u>	<u>30,316</u>	<u>1,005,778</u>	<u>2,274,845</u>	<u>5,373,834</u>
REVENUES UNDER EXPENDITURES	<u>(148,058)</u>	<u>(54,553)</u>	<u>(14,853)</u>	<u>(119,448)</u>	<u>(30,316)</u>	<u>(665,510)</u>	<u>(247,096)</u>	<u>(1,279,834)</u>
OTHER FINANCING SOURCES (USES)								
Debt Issued, Net					825,550			825,550
Sale of Capital Asset	5,342					970,340	25,000	1,000,682
Transfers In	219,057	21,000		100,000	200,000	153,630	301,991	995,678
Transfers Out			(21,000)			(1,807)	(533,299)	(556,106)
Payment Refunding Bond							(815,000)	(815,000)
Total Other Financing Sources (Uses)	<u>224,399</u>	<u>21,000</u>	<u>(21,000)</u>	<u>100,000</u>	<u>1,025,550</u>	<u>1,122,163</u>	<u>(1,021,308)</u>	<u>1,450,804</u>
NET CHANGE IN FUND BALANCES	<u>76,341</u>	<u>(33,553)</u>	<u>(35,853)</u>	<u>(19,448)</u>	<u>995,234</u>	<u>456,653</u>	<u>(1,268,404)</u>	<u>170,970</u>
FUND BALANCE, JANUARY 1	<u>685,561</u>	<u>1,928,855</u>	<u>2,163,820</u>	<u>173,755</u>		<u>498,702</u>	<u>3,406,722</u>	<u>8,857,415</u>
FUND BALANCE, DECEMBER 31	<u>\$ 761,902</u>	<u>\$ 1,895,302</u>	<u>\$ 2,127,967</u>	<u>\$ 154,307</u>	<u>\$ 995,234</u>	<u>\$ 955,355</u>	<u>\$ 2,138,318</u>	<u>\$ 9,028,385</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, 2014**

Exhibit A-6

Total net change in fund balances - governmental funds	\$ 170,970
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	1,272,468
Depreciation expense	(809,882)
The net effect of various capital asset transactions decreases net position.	(129,996)
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.	(760,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,038,146
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.	(64,833)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(297,033)
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>(5,955)</u>
Change in net position - governmental activities	<u>\$ 1,413,885</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, 2014**

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	\$ 1,003,228	\$ 534,412	\$ 1,420,750	\$ 682,419	\$ 62,352	\$ 3,703,161
Investments in Escrow		542,740				542,740
Accounts Receivable (Net of Allowance)	874,256	152,300	43,594		6,327	1,076,477
Special Assessments Receivable						
Noncurrent		4,811	1,261			6,072
Due from Other Funds	28,756		75,973	208,927		313,656
Notes Receivable	139,085					139,085
Inventory				332,405		332,405
Total Current Assets	<u>2,045,325</u>	<u>1,234,263</u>	<u>1,541,578</u>	<u>1,223,751</u>	<u>68,679</u>	<u>6,113,596</u>
NONCURRENT ASSETS						
Restricted Cash:						
Bond Covenants	308,935	441,583				750,518
Capital Assets						
Land	7,000	756,478	540,626	220,763		1,524,867
Construction in Process	465					465
Buildings	51,376			951,474		1,002,850
Machinery and Equipment	769,210	670,521	103,774	95,157	93,574	1,732,236
Improvements Other than Buildings	7,328,523	13,360,353	6,282,364			26,971,240
Less: Accumulated Depreciation	<u>(3,460,407)</u>	<u>(3,452,248)</u>	<u>(1,555,097)</u>	<u>(211,832)</u>	<u>(41,822)</u>	<u>(8,721,406)</u>
Total Capital Assets	<u>4,696,167</u>	<u>11,335,104</u>	<u>5,371,667</u>	<u>1,055,562</u>	<u>51,752</u>	<u>22,510,252</u>
Total Noncurrent Assets	<u>5,005,102</u>	<u>11,776,687</u>	<u>5,371,667</u>	<u>1,055,562</u>	<u>51,752</u>	<u>23,260,770</u>
Total Assets	<u>7,050,427</u>	<u>13,010,950</u>	<u>6,913,245</u>	<u>2,279,313</u>	<u>120,431</u>	<u>29,374,366</u>
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	1,130,427	42,576	5,471	154,010	3,961	1,336,445
Accrued Payroll	7,595	3,058	3,058	3,382	109	17,202
Consumer Deposits	58,700		1,450			60,150
Accrued Interest Payable	11,410	25,960	22,411	2,554		62,335
Unearned Revenue	2,895					2,895
Current Portion - Long Term Liab.	172,700	264,971	154,200	140,335		732,206
Total Current Liabilities	<u>1,383,727</u>	<u>336,565</u>	<u>186,590</u>	<u>300,281</u>	<u>4,070</u>	<u>2,211,233</u>
NONCURRENT LIABILITIES						
Bonds Payable	3,305,000	4,559,112	2,073,000			9,937,112
Loans Payable		157,994				157,994
Lease/Purchase Agreement				422,632		422,632
Compensated Absences	18,593	15,199	15,199	7,942	30	56,963
Less: Current Portion of						
Long Term Liabilities	<u>(172,700)</u>	<u>(264,971)</u>	<u>(154,200)</u>	<u>(140,335)</u>		<u>(732,206)</u>
Total Noncurrent Liabilities	<u>3,150,893</u>	<u>4,467,334</u>	<u>1,933,999</u>	<u>290,239</u>	<u>30</u>	<u>9,842,495</u>
Total Liabilities	<u>4,534,620</u>	<u>4,803,899</u>	<u>2,120,589</u>	<u>590,520</u>	<u>4,100</u>	<u>12,053,728</u>
NET POSITION						
Net Investment in Capital Assets	1,391,167	6,617,998	3,298,667	632,930	51,752	11,992,514
Restricted for Bond Covenants	308,935	441,583				750,518
Unrestricted	815,705	1,147,470	1,493,989	1,055,863	64,579	4,577,606
Total Net Position	<u>\$ 2,515,807</u>	<u>\$ 8,207,051</u>	<u>\$ 4,792,656</u>	<u>\$ 1,688,793</u>	<u>\$ 116,331</u>	<u>\$ 17,320,638</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, 2014

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	\$ 9,814,442	\$	\$	\$ 3,068,291	\$	\$ 12,882,733
Cost of Sales	8,612,206			2,268,417		10,880,623
Gross Profit	1,202,236			799,874		2,002,110
Charges for Services	22,478	1,212,009	680,061		70,902	1,985,450
Other Services	100,422	141,181	12,849	408	891	255,751
Total Operating Revenues	<u>1,325,136</u>	<u>1,353,190</u>	<u>692,910</u>	<u>800,282</u>	<u>71,793</u>	<u>4,243,311</u>
OPERATING EXPENSES						
Purchased Services					46,038	46,038
Professional Fees	113,543	95,441	95,774	13,679	254	318,691
Salaries and Benefits	242,848	141,723	142,214	213,051	4,118	743,954
Utilities	10,791	304,791	33,774	17,942		367,298
Maintenance and Supplies	243,619	148,435	57,185	13,244	11,129	473,612
Insurance	14,542	21,872	5,232	11,678	676	54,000
Depreciation	186,242	420,583	152,685	28,954	5,749	794,213
Other Expenses	57,436	56,307	69,951	77,476	2,833	264,003
Total Operating Expenses	<u>869,021</u>	<u>1,189,152</u>	<u>556,815</u>	<u>376,024</u>	<u>70,797</u>	<u>3,061,809</u>
Operating Income	<u>456,115</u>	<u>164,038</u>	<u>136,095</u>	<u>424,258</u>	<u>996</u>	<u>1,181,502</u>
NONOPERATING REVENUE (EXPENSE)						
Intergovernmental						
State	741	1,765	1,703	309	31	4,549
Interest on Investments	12,091	1,280	9,668	5,601	483	29,123
Special Assessments		923	119			1,042
Refunds and Reimbursements	38,339	41,725	11,583	2,018	117	93,782
Gain (Loss) on Disposal of Capital Assets	(517)	(844)	92,493			91,132
Contributions Made				(15,775)		(15,775)
Interest Expense	(141,327)	(73,716)	(63,973)	(12,997)		(292,013)
Total Nonoperating Revenue (Expense)	<u>(90,673)</u>	<u>(28,867)</u>	<u>51,593</u>	<u>(20,844)</u>	<u>631</u>	<u>(88,160)</u>
Income before Transfers	365,442	135,171	187,688	403,414	1,627	1,093,342
Transfers Out	(190,630)	(41,524)	(68,168)	(139,250)		(439,572)
Change in Net Position	<u>174,812</u>	<u>93,647</u>	<u>119,520</u>	<u>264,164</u>	<u>1,627</u>	<u>653,770</u>
TOTAL NET POSITION, JANUARY 1	<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>
TOTAL NET POSITION, DECEMBER 31	<u>\$ 2,515,807</u>	<u>\$ 8,207,051</u>	<u>\$ 4,792,656</u>	<u>\$ 1,688,793</u>	<u>\$ 116,331</u>	<u>\$ 17,320,638</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, 2014**

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	\$ 9,982,037	\$ 1,407,105	\$ 695,691	\$ 3,068,699	\$ 71,399	\$ 15,224,931
Receipts from Interfund Services Provided	2,790					2,790
Payments to Suppliers	(8,769,510)	(643,945)	(262,674)	(2,405,498)	(86,618)	(12,168,245)
Payments for Interfund Services Used				(2,790)		(2,790)
Payments to Employees	(250,431)	(140,098)	(140,589)	(211,116)	(4,093)	(746,327)
Net Cash Provided (Used) by Operating Activities	<u>964,886</u>	<u>623,062</u>	<u>292,428</u>	<u>449,295</u>	<u>(19,312)</u>	<u>2,310,359</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Change in Interfund Loans	36,966	(219,017)	230,614	(140,066)		(91,503)
Change in Due from Other Governments		359,595				359,595
Nonoperating Revenue	39,079	43,665	13,727	2,327	148	98,946
Nonoperating Expense				(15,775)		(15,775)
Change in Notes Receivable	(77,514)					(77,514)
Transfers to Other Funds	(190,630)	(41,524)	(68,168)	(139,250)		(439,572)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(192,099)</u>	<u>142,719</u>	<u>176,173</u>	<u>(292,764)</u>	<u>148</u>	<u>(165,823)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of Capital Assets	(577,577)	(87,629)	(14,915)		(5,220)	(685,341)
Payment of Long-Term Debt	(165,000)	(259,240)	(209,000)	(133,330)		(766,570)
Proceeds from Long-Term Debt		1,133,865				1,133,865
Proceeds from Sale of Capital Assets			115,850			115,850
Payment on Construction Accounts Payable		(281,652)				(281,652)
Interest on Long-Term Debt	(141,723)	(74,277)	(62,545)	(13,922)		(292,467)
Intergovernmental Revenue		1,765				1,765
Special Assessments Received		923	119			1,042
Net Cash Used by Capital and Related Financing Activities	<u>(884,300)</u>	<u>433,755</u>	<u>(170,491)</u>	<u>(147,252)</u>	<u>(5,220)</u>	<u>(773,508)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Earnings	12,091	1,280	9,664	5,601	483	29,119
Net Cash Provided by Investing Activities	<u>12,091</u>	<u>1,280</u>	<u>9,664</u>	<u>5,601</u>	<u>483</u>	<u>29,119</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(99,422)	1,200,816	307,774	14,880	(23,901)	1,400,147
CASH AND CASH EQUIVALENTS, JANUARY 1	<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>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,312,163</u>	<u>\$ 1,518,735</u>	<u>\$ 1,420,750</u>	<u>\$ 682,419</u>	<u>\$ 62,352</u>	<u>\$ 4,996,419</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, 2014**

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	\$ 456,115	\$ 164,038	\$ 136,095	\$ 424,258	\$ 996	\$ 1,181,502
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities						
Depreciation	186,242	420,583	152,685	28,954	5,749	794,213
Bad Debt Expense		10,000	5,000		500	15,500
Decrease (Increase) in						
Accounts Receivable	46,000	53,915	2,831		(394)	102,352
Inventory				(35,075)		(35,075)
Increase (Decrease) in						
Accounts Payable	282,627	(27,099)	(5,758)	29,223	(26,188)	252,805
Accrued Payroll	2,033	463	463	684	21	3,664
Unearned Revenue	(1,415)					(1,415)
Compensated Absences	(9,616)	1,162	1,162	1,251	4	(6,037)
Other Current Liabilities	2,900		(50)			2,850
Total Adjustments	<u>508,771</u>	<u>459,024</u>	<u>156,333</u>	<u>25,037</u>	<u>(20,308)</u>	<u>1,128,857</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 964,886</u>	<u>\$ 623,062</u>	<u>\$ 292,428</u>	<u>\$ 449,295</u>	<u>\$ (19,312)</u>	<u>\$ 2,310,359</u>

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 City'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. *Program revenues* include 1) charges to customers or applicants which purchase, use, or directly benefit from goods,

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

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 *2014A G.O. refunding bonds fund* accounts for all activities associated with debt service for the 2014A General Obligation Refunding Bonds.

The *permanent improvement fund* accounts for capital outlays not accounted for in other funds.

**CITY OF PERHAM, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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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.

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 \$55,500. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

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

A receivable is considered to be past due if any portion of the receivable balance is outstanding on the 22nd of the month. A penalty is charged on receivables that are outstanding on the 22nd 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.

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

Special assessments receivables not expected to be collected within one year are \$3,300,000.

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

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

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

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.

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 assets, 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.

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

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. DEFICIT FUND BALANCES

The following funds had deficit fund balances at December 31, 2014.

Fire and Rescue	\$62,817
1999 EDA Safety Building Bonds	24,078
Interchange Project	1,646
2015 Improvement Project	4,898

The deficits are expected to be eliminated through future revenues.

NOTE 3. DEPOSITS AND INVESTMENTS

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

	Primary Government	Perham Area Community Center	Perham Golf Course
Cash	\$ 10,582,431	\$ 551,319	\$ 10,104
Investments	1,537,305		
	<u>\$ 12,119,736</u>	<u>\$ 551,319</u>	<u>\$ 10,104</u>

As of December 31, 2014, the City had the following investments:

Investments	Maturities	Fair Value
US Treasury State and Local	\$ 2/1/2015	\$ 1,001,017
US Treasury State and Local	8/1/2015	8,142
US Treasury State and Local	2/1/2016	528,146
		<u>\$ 1,537,305</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:

- Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- 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.
- 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.
- Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- 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

CITY OF PERHAM, MINNESOTA
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System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

- (g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer 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, 2014, the City was not exposed to custodial credit risk.

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 600,524		\$ 59,499	\$ 541,025
Construction In Process	919,905	456,319	919,905	456,319
Total Capital Assets, Not Being Depreciated	<u>1,520,429</u>	<u>456,319</u>	<u>979,404</u>	<u>997,344</u>
Capital Assets, Being Depreciated:				
Buildings	4,867,102	234,386	195,600	4,905,888
Improvements Other Than Buildings	17,782,274	1,169,903		18,952,177
Machinery and Equipment	3,564,755	331,765	69,469	3,827,051
Total Capital Assets, Being Depreciated	<u>26,214,131</u>	<u>1,736,054</u>	<u>265,069</u>	<u>27,685,116</u>
Less Accumulated Depreciation For:				
Buildings	1,796,592	133,618	125,103	1,805,107
Improvements Other Than Buildings	4,055,243	474,414		4,529,657
Machinery and Equipment	1,412,945	201,850	69,469	1,545,326
Total Accumulated Depreciation	<u>7,264,780</u>	<u>809,882</u>	<u>194,572</u>	<u>7,880,090</u>
Total Capital Assets, Being Depreciated, Net	<u>18,949,351</u>	<u>926,172</u>	<u>70,497</u>	<u>19,805,026</u>
Governmental Activities Capital Assets, Net	<u>\$ 20,469,780</u>	<u>\$ 1,382,491</u>	<u>\$ 1,049,901</u>	<u>\$ 20,802,370</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,548,222	\$	\$ 23,355	\$ 1,524,867
Construction In Process		465		465
Total Capital Assets, Not Being Depreciated	<u>1,548,222</u>	<u>465</u>	<u>23,355</u>	<u>1,525,332</u>
Capital Assets, Being Depreciated:				
Buildings	1,002,850			1,002,850
Improvements Other Than Buildings	26,688,535	285,119	2,414	26,971,240
Machinery and Equipment	1,437,132	399,759	104,655	1,732,236
Total Capital Assets, Being Depreciated	<u>29,128,517</u>	<u>684,878</u>	<u>107,069</u>	<u>29,706,326</u>
Less Accumulated Depreciation For:				
Buildings	165,671	24,556		190,227
Improvements Other Than Buildings	6,915,091	699,853	1,053	7,613,891
Machinery and Equipment	952,139	69,804	104,655	917,288
Total Accumulated Depreciation	<u>8,032,901</u>	<u>794,213</u>	<u>105,708</u>	<u>8,721,406</u>
Total Capital Assets, Being Depreciated, Net	<u>21,095,616</u>	<u>(109,335)</u>	<u>1,361</u>	<u>20,984,920</u>
Business-type Activities Capital Assets, Net	<u>\$ 22,643,838</u>	<u>\$ (108,870)</u>	<u>\$ 24,716</u>	<u>\$ 22,510,252</u>

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

Governmental Activities:	
General Government	\$ 38,747
Public Safety	151,098
Public Works, including Depreciation of General Infrastructure Assets	425,812
Culture and Recreation	147,718
Economic Development	1,575
Airport	44,932
Total Depreciation Expense - Governmental Activities	<u>\$ 809,882</u>
Business-type Activities:	
Gas	\$ 186,242
Sewer and Wastewater	420,583
Water	152,685
Municipal Liquor	28,954
Recycling	5,749
Total Depreciation Expense - Business-type Activities	<u>\$ 794,213</u>

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

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	2,840,343			2,840,343
Machinery and Equipment	494,709	84,864		579,573
Total Capital Assets, Being Depreciated	<u>3,335,052</u>	<u>84,864</u>		<u>3,419,916</u>
Total Accumulated Depreciation	<u>1,775,065</u>	<u>131,264</u>		<u>1,906,329</u>
Total Capital Assets, Being Depreciated, Net	<u>1,559,987</u>	<u>(46,400)</u>		<u>1,513,587</u>
Perham Area Community Center Capital Assets, Net	<u>\$ 1,601,117</u>	<u>\$ (46,400)</u>	<u>\$</u>	<u>\$ 1,554,717</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	693,925	33,837	1,616	726,146
Total Capital Assets, Being Depreciated	<u>963,141</u>	<u>33,837</u>	<u>1,616</u>	<u>995,362</u>
Less Accumulated Depreciation For:				
Improvements Other than Buildings	53,188	13,489		66,677
Machinery and Equipment	503,856	54,420		558,276
Total Accumulated Depreciation	<u>557,044</u>	<u>67,909</u>		<u>624,953</u>
Perham Golf Course Capital Assets, Net	<u>\$ 406,097</u>	<u>\$ (34,072)</u>	<u>\$ 1,616</u>	<u>\$ 370,409</u>

NOTE 5. NOTES RECEIVABLE

The City has various notes receivable from individuals and organizations at December 31, 2014, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Special Revenue Funds			
Economic Development Loans	2015 - 2023	0.0 – 6.0%	\$ 1,522,471
Debt Service Funds			
Economic Development Loans	2015 - 2023	0.0 - 6.95%	1,125,617
Permanent Improvement Fund			
East Ottertail Ag Society	2015 - 2016	3.0%	15,260
Gas Fund			
Youth Build Affordable Housing Project Loans		2.5%	<u>139,085</u>
Total			<u>\$ 2,802,433</u>

The provision for uncollectible was \$146,000.

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

NOTE 6. CONTINGENT LIABILITIES AND COMMITMENTS

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2014, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

At December 31, 2014, the City had a \$1,704,000 commitment for an uncompleted construction contract for the Public Works Garage and a \$2,000 commitment for an uncompleted construction contract for the Airport Hangar Project.

NOTE 7. 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 \$14,628,220. During the year, general obligation bonds totaling \$760,000 were issued to refund existing debt.

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%	\$ 5,808,700
Governmental Activities – Refunding	0.5 – 4.0%	4,065,000
Business-type Activities – Refunding	0.5 – 3.2%	480,000

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,079,400	\$ 290,339	\$ 75,000	\$ 16,306
2016	1,229,900	262,735	75,000	14,099
2017	1,171,500	229,409	80,000	11,609
2018	852,000	201,408	85,000	8,858
2019	877,700	176,686	85,000	5,959
2020-2024	3,471,600	519,704	80,000	5,484
2025-2029	1,191,600	81,855		
	<u>\$ 9,873,700</u>	<u>\$ 1,762,136</u>	<u>\$ 480,000</u>	<u>\$ 62,315</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 \$7,167,524. During the year, general obligation bonds totaling \$1,081,788 were issued to finance construction projects and refund existing debt.

CITY OF PERHAM, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.1 – 2.4%	\$510,000
Business-type Activities	1.0 – 4.7%	5,590,034
Business-type Activities - Refunding	3.0 – 4.0%	510,000

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

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 125,000	\$ 9,440	\$ 293,034	\$ 128,038
2016	100,000	8,065	298,000	122,890
2017	65,000	6,165	358,000	114,685
2018	70,000	4,930	374,000	105,270
2019	75,000	3,600	379,000	95,466
2020-2024	75,000	1,800	1,839,000	326,666
2025-2029			1,118,000	129,928
2030-2034			532,000	61,540
2035-2039			560,000	34,350
2040-2042			349,000	7,010
	<u>\$ 510,000</u>	<u>\$ 34,000</u>	<u>\$ 6,100,034</u>	<u>\$ 1,125,843</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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities - Refunding	3.0 – 4.7%	\$3,305,000

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

<u>Year Ending</u> <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 165,000	\$ 136,921
2016	170,000	131,685
2017	180,000	125,773
2018	185,000	119,153
2019	190,000	111,980
2020-2024	1,080,000	434,197
2025-2029	1,335,000	163,693
	<u>\$ 3,305,000</u>	<u>\$ 1,223,402</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 \$386,922 and \$414,361 at December 31, 2014.

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

The City has the following loans:

<u>Lender</u>	<u>Interest Rates</u>	<u>Amount</u>
U.S. Department of Agriculture	1.0%	\$ 801,283
Contract for Deed	1.3%	157,994
		<u>\$ 959,277</u>

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.0%	\$801,283
Business-type Activities	1.3%	157,994

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	67,583	5,418		
2020-2024	345,654	16,870		
2025-2028	124,356	2,941		
	<u>\$ 801,283</u>	<u>\$ 53,537</u>	<u>\$ 157,994</u>	<u>\$ 5,006</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%	\$422,632

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

<u>Year Ending December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 137,035	\$ 10,217
2016	140,842	6,410
2017	144,755	2,497
	<u>\$ 422,632</u>	<u>\$ 19,124</u>

Crossover Refunding. During 2014, the City issued \$1,270,000 in general obligation refunding bonds with interest rates ranging between 3.0 to 4.0%. The City issued the bonds to refund the following outstanding general obligations:

<u>General Obligation</u>	<u>Refunding Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Improvement Bonds of 2007A	2/1/2015	4.1 - 4.45%	\$ 760,000
2008A G.O. Utility Revenue Bonds	2/1/2016	4.0 - 4.7	510,000

The City will realize a savings of \$141,683, with a present value of \$115,530.

CITY OF PERHAM, MINNESOTA
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Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2014, 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	\$ 10,772,500	\$ 760,000	\$ 1,658,800	\$ 9,873,700	\$ 1,079,400
General Obligation Revenue Bonds	635,000		125,000	510,000	125,000
Subtotal Bonds Payable	<u>11,407,500</u>	<u>760,000</u>	<u>1,783,800</u>	<u>10,383,700</u>	<u>1,204,400</u>
Less Deferred Amounts:					
For Issuance Discounts	(42,801)	65,549	(4,200)	26,948	(4,200)
Total Bonds Payable	<u>11,364,699</u>	<u>825,549</u>	<u>1,779,600</u>	<u>10,410,648</u>	<u>1,200,200</u>
Other Long-term Obligations					
Loans Payable	865,629		64,346	801,283	64,940
Total Other Long-term Obligations	<u>865,629</u>		<u>64,346</u>	<u>801,283</u>	<u>64,940</u>
Compensated Absences Governmental Activity	<u>76,143</u>	<u>66,398</u>	<u>60,443</u>	<u>82,098</u>	<u>33,600</u>
Long-term Liabilities	<u>\$ 12,306,471</u>	<u>\$ 891,947</u>	<u>\$ 1,904,389</u>	<u>\$ 11,294,029</u>	<u>\$ 1,298,740</u>
<u>Business-type Activities</u>					
Bonds Payable					
General Obligation Bonds	\$ 810,000		\$ 330,000	\$ 480,000	\$ 75,000
General Obligation Revenue Bonds	5,308,246	1,081,788	290,000	6,100,034	293,034
Revenue Bonds	3,470,000		165,000	3,305,000	165,000
Subtotal Bonds Payable	<u>9,588,246</u>	<u>1,081,788</u>	<u>785,000</u>	<u>9,885,034</u>	<u>533,034</u>
Less Deferred Amounts:					
For Issuance Discount		52,078		52,078	
Total Bonds Payable	<u>9,588,246</u>	<u>1,133,866</u>	<u>785,000</u>	<u>9,937,112</u>	<u>533,034</u>
Other Long-term Obligations					
Lease/Purchase Agreement	555,962		133,330	422,632	137,035
Loans Payable	196,234		38,240	157,994	38,737
Total Other Long-term Obligations	<u>752,196</u>		<u>171,570</u>	<u>580,626</u>	<u>175,772</u>
Compensated Absences Business-type Activity	<u>63,001</u>	<u>30,106</u>	<u>36,144</u>	<u>56,963</u>	<u>23,400</u>
Long-term Liabilities	<u>\$ 10,403,443</u>	<u>\$ 1,163,972</u>	<u>\$ 992,714</u>	<u>\$ 10,574,701</u>	<u>\$ 732,206</u>

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

See the Schedule of Indebtedness for detail and payment provisions.

**CITY OF PERHAM, MINNESOTA
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Component Units (Unaudited)

Loans Payable. The following loans have been issued:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Perham Golf Course	3.5%	\$248,524

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

<u>Year Ending December 31</u>	<u>Perham Golf Course</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 38,624	\$ 6,300
2016	38,633	5,616
2017	38,624	4,900
2018	32,643	4,200
2019	20,000	3,500
2020-2021	80,000	4,908
	<u>\$ 248,524</u>	<u>\$ 29,424</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Perham Golf Course</u>					
Other Long-term Obligations					
Loans Payable	\$ 235,881	\$ 31,267	\$ 18,624	\$ 248,524	\$ 38,624
Lifetime Memberships	16,500			16,500	1,500
Component Unit Long-term Liabilities	<u>\$ 252,381</u>	<u>\$ 31,267</u>	<u>\$ 18,624</u>	<u>\$ 265,024</u>	<u>\$ 40,124</u>

NOTE 8. 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, 2014, was \$147,825.

<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
\$ 174,209	\$	\$ 26,384	\$ 147,825

NOTE 9. 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, 2014, the aggregate principal amount payable of the one series issued was \$704,357. The original issue amount totaled \$952,317.

NOTE 10. 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 five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of 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.

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

17 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% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2% of their annual

CITY OF PERHAM, MINNESOTA
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covered salary in 2014. In 2014, the City of Perham was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 15.3% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012, were \$68,738, \$64,797, and \$118,202, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2014, 2013, and 2012, were \$43,558, \$38,704, and \$37,141, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers) and the Police and Fire Fund (10.8% for members and 16.2% for employers).

NOTE 11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Due to / from other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 6,544
Gas	Nonmajor Governmental	28,756
Municipal Liquor	Nonmajor Governmental	162,455
Water	Permanent Improvement	75,973
Municipal Liquor	Permanent Improvement	46,472
		<u>\$ 320,200</u>

The amount payable is to finance the operation of the fund. Approximately \$170,000 of the balance is scheduled to be collected after 2015.

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Municipal Liquor	\$ 99,250
General	Sewer and Wastewater	15,500
General	Water	15,500
General	Gas	87,000
General	Nonmajor Governmental	1,807
Economic Development Revolving Loan	1996 IRP Loan Program	21,000
2009 G.O. Improvement Bonds	Nonmajor Governmental	100,000
Permanent Improvement	Municipal Liquor	40,000
Permanent Improvement	Sewer and Wastewater	4,000
Permanent Improvement	Water	6,000
Permanent Improvement	Gas	103,630
Nonmajor Governmental	Sewer and Wastewater	22,024
Nonmajor Governmental	Water	46,668
Nonmajor Governmental	Nonmajor Governmental	433,299
		<u>\$ 995,678</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, 2014**

NOTE 12. MAJOR CUSTOMERS

The City has four major customers, which represent about 56% of the gas, water, and sewer utility revenue.

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

NOTE 13. 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, 2014, 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 14. NEW PRONOUNCEMENTS

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

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

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

CITY OF PERHAM, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Property Taxes	\$ 350,401	\$ 350,401	\$ 354,465	\$ 4,064
Special Assessments			43	43
Licenses and Permits	82,000	82,000	130,414	48,414
Intergovernmental				
State				
Local Governmental Aid	583,098	583,098	583,104	6
Police Aid	33,000	33,000	38,080	5,080
PERA	648	648	648	
Aviation Maintenance Aid	22,374	22,374	23,882	1,508
Other	2,500	2,500	28,472	25,972
Other Local Government	4,000	4,000	4,520	520
	<u>645,620</u>	<u>645,620</u>	<u>678,706</u>	<u>33,086</u>
Charges for Services				
General Government	43,530	43,530	47,712	4,182
Police Department	4,100	4,100	2,487	(1,613)
Airport	56,500	56,500	63,241	6,741
	<u>104,130</u>	<u>104,130</u>	<u>113,440</u>	<u>9,310</u>
Fines and Forfeitures	25,000	25,000	13,730	(11,270)
Miscellaneous				
Interest on Investments	2,500	2,500	5,228	2,728
Contributions	5,000	5,000	3,468	(1,532)
Reimbursements	14,000	14,000	48,040	34,040
Other Receipts	56,500	56,500	64,662	8,162
	<u>78,000</u>	<u>78,000</u>	<u>121,398</u>	<u>43,398</u>
Total Revenues	<u>1,285,151</u>	<u>1,285,151</u>	<u>1,412,196</u>	<u>127,045</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES				
General Government				
Mayor and Council	29,481	29,481	46,908	17,427
Finance / Administration	141,557	141,557	137,670	(3,887)
Elections	5,750	5,750	5,255	(495)
Independent Auditors	4,000	4,000	3,332	(668)
Legal Services	43,500	43,500	33,350	(10,150)
Planning and Zoning	11,500	11,500	12,798	1,298
Building Inspection Fees	64,400	64,400	116,270	51,870
Municipal Building	29,000	29,000	34,776	5,776
	<u>329,188</u>	<u>329,188</u>	<u>390,359</u>	<u>61,171</u>
Public Safety				
Police Protection	527,930	527,930	536,364	8,434
Police Station	10,850	10,850	10,846	(4)
	<u>538,780</u>	<u>538,780</u>	<u>547,210</u>	<u>8,430</u>
Public Works				
Streets and Alleys	123,005	123,005	147,991	24,986
Snow and Ice Removal	66,230	66,230	58,255	(7,975)
Street Lighting	59,000	59,000	58,831	(169)
	<u>248,235</u>	<u>248,235</u>	<u>265,077</u>	<u>16,842</u>
Culture and Recreation				
Senior Center	30,000	30,000	30,697	697
Municipal Parks	230,763	230,763	236,293	5,530
	<u>260,763</u>	<u>260,763</u>	<u>266,990</u>	<u>6,227</u>
Airport	68,935	68,935	90,618	21,683
Total Expenditures	<u>1,445,901</u>	<u>1,445,901</u>	<u>1,560,254</u>	<u>114,353</u>
REVENUES UNDER EXPENDITURES	<u>(160,750)</u>	<u>(160,750)</u>	<u>(148,058)</u>	<u>12,692</u>
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets			5,342	5,342
Transfers In	195,750	195,750	219,057	23,307
Transfers Out	(35,000)	(35,000)		35,000
Total Other Financing Sources (Uses)	<u>160,750</u>	<u>160,750</u>	<u>224,399</u>	<u>63,649</u>
NET CHANGE IN FUND BALANCES			76,341	76,341
FUND BALANCE, JANUARY 1	<u>685,561</u>	<u>685,561</u>	<u>685,561</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 685,561</u>	<u>\$ 685,561</u>	<u>\$ 761,902</u>	<u>\$ 76,341</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Property Taxes	\$ 47,954	\$ 47,954	\$ 48,316	\$ 362
Intergovernmental - State				
PERA	250	250	247	(3)
Charges for Services	21,000	21,000	23,448	2,448
Miscellaneous				
Contributions			1,350	1,350
Interest on Investments	4,000	4,000	5,927	1,927
Interest on Loans Receivable	50,000	50,000	47,455	(2,545)
Other Receipts	100	100	20,889	20,789
Total Revenues	<u>123,304</u>	<u>123,304</u>	<u>147,632</u>	<u>24,328</u>
EXPENDITURES				
Current				
Economic Development	<u>144,304</u>	<u>144,304</u>	<u>202,185</u>	<u>57,881</u>
Total Expenditures	<u>144,304</u>	<u>144,304</u>	<u>202,185</u>	<u>57,881</u>
REVENUES UNDER EXPENDITURES	<u>(21,000)</u>	<u>(21,000)</u>	<u>(54,553)</u>	<u>(33,553)</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			(33,553)	(33,553)
FUND BALANCE, JANUARY 1	<u>1,928,855</u>	<u>1,928,855</u>	<u>1,928,855</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 1,928,855</u>	<u>\$ 1,928,855</u>	<u>\$ 1,895,302</u>	<u>\$ (33,553)</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, 2014**

NOTE 1. LEGAL COMPLIANCE-BUDGETS

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

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

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

Appropriations are authorized by the city council at the function and activity level within an individual fund, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. The city 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, 2014, expenditures exceeded appropriations in the general fund and the economic development revolving loan fund by \$114,353 and \$57,881 respectively. The over expenditures were covered by greater than expected revenues in the general fund.

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

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	\$ 752,259	\$ 1,522,355	\$ 38,922	\$ 54,238	\$ 2,367,774
Accounts Receivable	4,378				4,378
Tax Receivable - Current	1,594	2,584			4,178
Tax Receivable - Delinquent	7,458	1,467			8,925
Special Assessments Receivable					
Delinquent		8,791			8,791
Noncurrent		2,586,224			2,586,224
TOTAL ASSETS	\$ 765,689	\$ 4,121,421	\$ 38,922	\$ 54,238	\$ 4,980,270
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 25,496		\$ 11,675		\$ 37,171
Accrued Payroll	3,086				3,086
Due to Other Funds	162,455	28,756	6,544		197,755
Total Liabilities	191,037	28,756	18,219		238,012
Deferred Inflows of Resources					
Unavailable Revenue	7,458	2,596,482			2,603,940
Total Deferred Inflows of Resources	7,458	2,596,482			2,603,940
Fund Balance					
Nonspendable - Endowment				50,000	50,000
Restricted for:					
TIF District	421,793				421,793
Marketing	22,726				22,726
Development	18,345				18,345
Debt Service		1,520,261			1,520,261
Committed for:					
Library	77,524				77,524
Storm Sewer	89,623				89,623
Assigned					
Capital Projects			27,247		27,247
Park				4,238	4,238
Unassigned	(62,817)	(24,078)	(6,544)		(93,439)
Total Fund Balance	567,194	1,496,183	20,703	54,238	2,138,318
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 765,689	\$ 4,121,421	\$ 38,922	\$ 54,238	\$ 4,980,270

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

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	\$ 751,545	\$ 385,926		\$	\$ 1,137,471
Hotel/Motel Tax	40,595				40,595
Special Assessments		401,196			401,196
Intergovernmental - Federal		14,504			14,504
Intergovernmental - State	45,195				45,195
Intergovernmental - Local	132,961				132,961
Charges for Services	113,602				113,602
Miscellaneous					
Interest on Investments	4,029	10,791	611	3,502	18,933
Rent		73,353			73,353
Contributions	30,508				30,508
Reimbursements	4,240		10,000		14,240
Other Receipts	5,191				5,191
Total Revenues	<u>1,127,866</u>	<u>885,770</u>	<u>10,611</u>	<u>3,502</u>	<u>2,027,749</u>
EXPENDITURES					
Current					
Public Safety	246,554				246,554
Public Works	20,183				20,183
Culture and Recreation	174,117			2,638	176,755
Economic Development	222,434				222,434
Debt					
Principal		928,800			928,800
Interest		259,133			259,133
Fees		3,220			3,220
Capital Outlay					
Public Safety	247,809				247,809
Public Works			169,957		169,957
Total Expenditures	<u>911,097</u>	<u>1,191,153</u>	<u>169,957</u>	<u>2,638</u>	<u>2,274,845</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>216,769</u>	<u>(305,383)</u>	<u>(159,346)</u>	<u>864</u>	<u>(247,096)</u>
OTHER FINANCING SOURCES (USES)					
Sale of Capital Asset	25,000				25,000
Transfers In		290,361	11,630		301,991
Transfers Out	(330,781)	(202,518)			(533,299)
Payment Refunding Bond		(815,000)			(815,000)
Total Other Financing Sources (Uses)	<u>(305,781)</u>	<u>(727,157)</u>	<u>11,630</u>		<u>(1,021,308)</u>
NET CHANGE IN FUND BALANCES	<u>(89,012)</u>	<u>(1,032,540)</u>	<u>(147,716)</u>	<u>864</u>	<u>(1,268,404)</u>
FUND BALANCE, JANUARY 1	<u>656,206</u>	<u>2,528,723</u>	<u>168,419</u>	<u>53,374</u>	<u>3,406,722</u>
FUND BALANCE, DECEMBER 31	<u>\$ 567,194</u>	<u>\$ 1,496,183</u>	<u>\$ 20,703</u>	<u>\$ 54,238</u>	<u>\$ 2,138,318</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 DECEMBER 31, 2014**

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	\$ 85,375	\$ 111,482	\$ 18,345	\$ 421,793	\$ 85,759	\$ 29,505	\$ 752,259
Accounts Receivable		415			3,963		4,378
Tax Receivable - Current	881	713					1,594
Tax Receivable - Delinquent	500	404		6,554			7,458
TOTAL ASSETS	\$ 86,756	\$ 113,014	\$ 18,345	\$ 428,347	\$ 89,722	\$ 29,505	\$ 765,689
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities							
Accounts Payable	\$ 5,969	\$ 12,649	\$	\$	\$ 99	\$ 6,779	\$ 25,496
Accrued Payroll	2,763	323					3,086
Due to Other Funds		162,455					162,455
Total Liabilities	8,732	175,427			99	6,779	191,037
Deferred Inflows of Resources							
Unavailable Revenue	500	404		6,554			7,458
Total Deferred Inflows of Resources	500	404		6,554			7,458
Fund Balance							
Restricted for:							
TIF District				421,793			421,793
Marketing						22,726	22,726
Development			18,345				18,345
Committed for:							
Library	77,524						77,524
Storm Sewer					89,623		89,623
Unassigned		(62,817)					(62,817)
Total Fund Balance	77,524	(62,817)	18,345	421,793	89,623	22,726	567,194
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 86,756	\$ 113,014	\$ 18,345	\$ 428,347	\$ 89,722	\$ 29,505	\$ 765,689

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED DECEMBER 31, 2014**

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	\$ 119,676	\$ 96,792	\$	\$ 535,077	\$	\$	\$ 751,545
Hotel/Motel Tax						40,595	40,595
Intergovernmental - State							
Fire Aid		39,232					39,232
PERA	309						309
Other State Aid		5,654					5,654
Intergovernmental - Local							
Other Local Government	38,322						38,322
Township		94,639					94,639
Charges for Services	5,490	68,007			40,105		113,602
Miscellaneous							
Interest on Investments	521	409		2,597	400	102	4,029
Contributions	8,729	500	21,279				30,508
Reimbursements	4,240						4,240
Other Receipts	804	4,339			48		5,191
Total Revenues	<u>178,091</u>	<u>309,572</u>	<u>21,279</u>	<u>537,674</u>	<u>40,553</u>	<u>40,697</u>	<u>1,127,866</u>
EXPENDITURES							
Current							
Public Safety		246,554					246,554
Public Works					20,183		20,183
Culture and Recreation	174,117						174,117
Economic Development				187,434		35,000	222,434
Capital Outlay							
Public Safety		247,809					247,809
Total Expenditures	<u>174,117</u>	<u>494,363</u>		<u>187,434</u>	<u>20,183</u>	<u>35,000</u>	<u>911,097</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>3,974</u>	<u>(184,791)</u>	<u>21,279</u>	<u>350,240</u>	<u>20,370</u>	<u>5,697</u>	<u>216,769</u>
OTHER FINANCING SOURCES (USES)							
Sale of Capital Asset		25,000					25,000
Transfers Out				(330,781)			(330,781)
Total Other Financing Sources (Uses)		<u>25,000</u>		<u>(330,781)</u>			<u>(305,781)</u>
NET CHANGE IN FUND BALANCES	<u>3,974</u>	<u>(159,791)</u>	<u>21,279</u>	<u>19,459</u>	<u>20,370</u>	<u>5,697</u>	<u>(89,012)</u>
FUND BALANCE, JANUARY 1	<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>
FUND BALANCE, DECEMBER 31	<u>\$ 77,524</u>	<u>\$ (62,817)</u>	<u>\$ 18,345</u>	<u>\$ 421,793</u>	<u>\$ 89,623</u>	<u>\$ 22,726</u>	<u>\$ 567,194</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 DECEMBER 31, 2014**

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	\$ 106,222	\$ 408,151	\$ 107,445	\$ 4,500	\$ 140,986
Taxes Receivable - Current		410	191	178	
Taxes Receivable - Delinquent		233	109	101	
Special Assessments Receivable					
Delinquent		6,988			
Noncurrent	246,357	250,699	603,388		215,251
	<u>246,357</u>	<u>250,699</u>	<u>603,388</u>		<u>215,251</u>
TOTAL ASSETS	<u>\$ 352,579</u>	<u>\$ 666,481</u>	<u>\$ 711,133</u>	<u>\$ 4,779</u>	<u>\$ 356,237</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Due to Other Funds	\$	\$	\$	\$ 28,756	\$
Total Liabilities				<u>28,756</u>	
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	246,357	257,920	603,497	101	215,251
Total Deferred Inflows of Resources	<u>246,357</u>	<u>257,920</u>	<u>603,497</u>	<u>101</u>	<u>215,251</u>
FUND BALANCE					
Restricted for Debt Service	106,222	408,561	107,636		140,986
Unassigned				(24,078)	
Total Fund Balance	<u>106,222</u>	<u>408,561</u>	<u>107,636</u>	<u>(24,078)</u>	<u>140,986</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 352,579</u>	<u>\$ 666,481</u>	<u>\$ 711,133</u>	<u>\$ 4,779</u>	<u>\$ 356,237</u>

cont.

**CITY OF PERHAM, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 DECEMBER 31, 2014**

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	\$ 67,326	\$ 86,156	\$ 297,402	\$ 209,280	\$ 94,887	\$ 1,522,355
Taxes Receivable - Current		171	1,230	103	301	2,584
Taxes Receivable - Delinquent		97	698	58	171	1,467
Special Assessments Receivable						
Delinquent		539	724		540	8,791
Noncurrent		356,895	381,126	171,872	360,636	2,586,224
TOTAL ASSETS	<u>\$ 67,326</u>	<u>\$ 443,858</u>	<u>\$ 681,180</u>	<u>\$ 381,313</u>	<u>\$ 456,535</u>	<u>\$ 4,121,421</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Due to Other Funds	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ 28,756
Total Liabilities	_____	_____	_____	_____	_____	28,756
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue		357,531	382,548	171,930	361,347	2,596,482
Total Deferred Inflows of Resources		357,531	382,548	171,930	361,347	2,596,482
FUND BALANCE						
Restricted for Debt Service	67,326	86,327	298,632	209,383	95,188	1,520,261
Unassigned						(24,078)
Total Fund Balance	<u>67,326</u>	<u>86,327</u>	<u>298,632</u>	<u>209,383</u>	<u>95,188</u>	<u>1,496,183</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 67,326</u>	<u>\$ 443,858</u>	<u>\$ 681,180</u>	<u>\$ 381,313</u>	<u>\$ 456,535</u>	<u>\$ 4,121,421</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 YEAR ENDED DECEMBER 31, 2014**

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>	<u>2012A G.O. Refunding Bonds</u>
REVENUES						
Property Taxes	\$ 1,358	\$ 61,071	\$ 28,085	\$ 26,422	\$	\$
Special Assessments	77,771	52,576	72,362			
Intergovernmental						
Federal						
Miscellaneous						
Interest on Investments	1,559	2,502	577	127	630	1,037
Rent						
Total Revenues	<u>80,688</u>	<u>116,149</u>	<u>101,024</u>	<u>26,549</u>	<u>630</u>	<u>1,037</u>
EXPENDITURES						
Principal	115,000	110,000	87,000		11,800	
Interest	20,653	49,135	30,634	1,227	11,659	4,924
Fees	20	480	450			450
Total Expenditures	<u>135,673</u>	<u>159,615</u>	<u>118,084</u>	<u>1,227</u>	<u>23,459</u>	<u>5,374</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(54,985)</u>	<u>(43,466)</u>	<u>(17,060)</u>	<u>25,322</u>	<u>(22,829)</u>	<u>(4,337)</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	51,511	32,781	24,662		45,000	
Transfers Out	(200,000)					(2,518)
Payment Refunding Bond						(815,000)
Total Other Financing Sources (Uses)	<u>(148,489)</u>	<u>32,781</u>	<u>24,662</u>	<u></u>	<u>45,000</u>	<u>(817,518)</u>
NET CHANGE IN FUND BALANCES	(203,474)	(10,685)	7,602	25,322	22,171	(821,855)
FUND BALANCE JANUARY 1	<u>309,696</u>	<u>419,246</u>	<u>100,034</u>	<u>(49,400)</u>	<u>118,815</u>	<u>821,855</u>
FUND BALANCE DECEMBER 31	<u>\$ 106,222</u>	<u>\$ 408,561</u>	<u>\$ 107,636</u>	<u>\$ (24,078)</u>	<u>\$ 140,986</u>	<u>\$</u>

cont.

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 YEAR ENDED DECEMBER 31, 2014**

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	\$	\$ 25,356	\$ 184,549	\$ 15,183	\$ 43,902	\$ 385,926
Special Assessments		16,914	99,571	32,292	49,710	401,196
Intergovernmental						
Federal				14,504		14,504
Miscellaneous						
Interest on Investments	396	591	2,056	1,223	93	10,791
Rent	73,353					73,353
Total Revenues	<u>73,749</u>	<u>42,861</u>	<u>286,176</u>	<u>63,202</u>	<u>93,705</u>	<u>885,770</u>
EXPENDITURES						
Principal	65,000	65,000	440,000	35,000		928,800
Interest	8,645	10,654	47,010	44,655	29,937	259,133
Fees	450		495	450	425	3,220
Total Expenditures	<u>74,095</u>	<u>75,654</u>	<u>487,505</u>	<u>80,105</u>	<u>30,362</u>	<u>1,191,153</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(346)</u>	<u>(32,793)</u>	<u>(201,329)</u>	<u>(16,903)</u>	<u>63,343</u>	<u>(305,383)</u>
OTHER FINANCING SOURCES (USES)						
Transfers In		21,007	98,000	17,400		290,361
Transfers Out						(202,518)
Payment Refunding Bond						(815,000)
Total Other Financing Sources (Uses)		<u>21,007</u>	<u>98,000</u>	<u>17,400</u>		<u>(727,157)</u>
NET CHANGE IN FUND BALANCES	(346)	(11,786)	(103,329)	497	63,343	(1,032,540)
FUND BALANCE JANUARY 1	<u>67,672</u>	<u>98,113</u>	<u>401,961</u>	<u>208,886</u>	<u>31,845</u>	<u>2,528,723</u>
FUND BALANCE DECEMBER 31	<u>\$ 67,326</u>	<u>\$ 86,327</u>	<u>\$ 298,632</u>	<u>\$ 209,383</u>	<u>\$ 95,188</u>	<u>\$ 1,496,183</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING BLANCE SHEET
 NONMAJOR CAPITAL PROJECT FUNDS
 DECEMBER 31, 2014**

Exhibit C-5

	<u>2013 Improvement Project</u>	<u>Interchange Project</u>	<u>2015 Improvement Project</u>	<u>Total Nonmajor Capital Projects Funds Exhibit B-1</u>
ASSETS				
Cash and Investments	\$ 38,922	\$ _____	\$ _____	\$ 38,922
TOTAL ASSETS	<u>\$ 38,922</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 38,922</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 11,675	\$ _____	\$ _____	\$ 11,675
Due to Other Funds		1,646	4,898	6,544
Total Liabilities	<u>11,675</u>	<u>1,646</u>	<u>4,898</u>	<u>18,219</u>
FUND BALANCE				
Assigned for Capital Projects	27,247			27,247
Unassigned		(1,646)	(4,898)	(6,544)
Total Fund Balance	<u>27,247</u>	<u>(1,646)</u>	<u>(4,898)</u>	<u>20,703</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 38,922</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 38,922</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECT FUNDS
 YEAR ENDED DECEMBER 31, 2014**

Exhibit C-6

	<u>2013 Improvement Project</u>	<u>Interchange Project</u>	<u>Clearwater 2nd Addition</u>	<u>2015 Improvement Project</u>	<u>Total Nonmajor Capital Projects Funds Exhibit B-2</u>
REVENUES					
Miscellaneous					
Interest on Investments	\$ 611	\$	\$	\$	\$ 611
Reimbursements	10,000				10,000
Total Revenues	<u>10,611</u>				<u>10,611</u>
EXPENDITURES					
Capital Outlay					
Public Works	153,777		11,282	4,898	169,957
Total Expenditures	<u>153,777</u>		<u>11,282</u>	<u>4,898</u>	<u>169,957</u>
REVENUES UNDER EXPENDITURES	<u>(143,166)</u>		<u>(11,282)</u>	<u>(4,898)</u>	<u>(159,346)</u>
OTHER FINANCING SOURCES					
Transfers In			11,630		11,630
Total Other Financing Sources			<u>11,630</u>		<u>11,630</u>
NET CHANGE IN FUND BALANCES	(143,166)		348	(4,898)	(147,716)
FUND BALANCE, JANUARY 1	<u>170,413</u>	<u>(1,646)</u>	<u>(348)</u>		<u>168,419</u>
FUND BALANCE, DECEMBER 31	<u>\$ 27,247</u>	<u>\$ (1,646)</u>	<u>\$</u>	<u>(4,898)</u>	<u>\$ 20,703</u>

CITY OF PERHAM, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
YEAR ENDED DECEMBER 31, 2014

	<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>Payment Refunding Bond</u>	<u>Sale of Capital Assets</u>	<u>Ending Balance</u>
Primary Government Governmental Funds									
General	\$ 685,561	\$ 1,412,196	\$ 1,560,254	\$ 219,057	\$	\$	\$	5,342	\$ 761,902
Special Revenue									
Library	73,550	178,091	174,117						77,524
Fire and Rescue	96,974	309,572	494,363					25,000	(62,817)
Economic Development									
Revolving Loan	1,928,855	147,632	202,185	21,000					1,895,302
CDBG	(2,934)	21,279							18,345
TIF Districts	402,334	537,674	187,434		330,781				421,793
Storm Sewer	69,253	40,553	20,183						89,623
Lodging Tax	17,029	40,697	35,000						22,726
Debt Service									
1996 IRP Loan Program	2,163,820	58,753	73,606		21,000				2,127,967
2007 G.O. Improvement Bonds	419,246	116,149	159,615	32,781					408,561
1999 EDA Safety Building Bonds	(49,400)	26,549	1,227						(24,078)
1999 Industrial Park Improvement	118,815	630	23,459	45,000					140,986
Golf Course	67,672	73,749	74,095						67,326
2005 G.O. Improvement Bonds	309,696	80,688	135,673	51,511	200,000				106,222
2006 G.O. Bonds	98,113	42,861	75,654	21,007					86,327
2009 G.O. Improvement Bonds	173,755	107,402	226,850	100,000					154,307
2009B G.O. Refunding Bonds	401,961	286,176	487,505	98,000					298,632
2010A G.O. Improvement Bonds	208,886	63,202	80,105	17,400					209,383
2011A G.O. Improvement Bonds	100,034	101,024	118,084	24,662					107,636
2012A G.O. Refunding Bonds	821,855	1,037	5,374		2,518		815,000		95,188
2013 G.O. Improvement Bonds	31,845	93,705	30,362						995,234
2014A Refunding			30,316	200,000		825,550			
Capital Projects									
Permanent Improvement	498,702	340,268	1,005,778	153,630	1,807			970,340	955,355
Interchange Project	(1,646)								(1,646)
2013 Improvement Project	170,413	10,611	153,777						27,247
Clearwater 2nd Addition	(348)		11,282	11,630					
2015 Improvement Project			4,898						(4,898)
Permanent Fund	53,374	3,502	2,638						54,238
Total Governmental Funds	<u>8,857,415</u>	<u>4,094,000</u>	<u>5,373,834</u>	<u>995,678</u>	<u>556,106</u>	<u>825,550</u>	<u>815,000</u>	<u>1,000,682</u>	<u>9,028,385</u>

cont.

CITY OF PERHAM, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
YEAR ENDED DECEMBER 31, 2014

	<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>Payment Bond Refunding</u>	<u>Sale of Capital Assets</u>	<u>Ending Balance</u>
Proprietary Funds									
Municipal Liquor	1,424,629	3,076,627	2,673,213		139,250				1,688,793
Gas	2,340,995	9,987,996	9,622,554		190,630				2,515,807
Sewer and Wastewater	8,113,404	1,398,039	1,262,868		41,524				8,207,051
Water	4,673,136	808,476	620,788		68,168				4,792,656
Recycling	114,704	72,424	70,797						116,331
Total Proprietary Funds	16,666,868	15,343,562	14,250,220		439,572				17,320,638
Total Primary Government	\$ 25,524,283	\$ 19,437,562	\$ 19,624,054	\$ 995,678	\$ 995,678	\$ 825,550	\$ 815,000	\$ 1,000,682	\$ 26,349,023
Component Units									
Perham Area Community Center	\$ 1,969,449	\$ 898,722	\$ 925,649	\$	\$	\$	\$	\$	\$ 1,942,522
Perham Golf Course	13,452	655,035	683,861						(15,374)
Total Component Units	\$ 1,982,901	\$ 1,553,757	\$ 1,609,510	\$	\$	\$	\$	\$	\$ 1,927,148

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

BOND INDEBTEDNESS	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2013	Issued 2014	Retired 2014	Balance 12/31/2014	Principal 2015	Interest 2015
General Obligation Bonds										
G.O. Improvement Bonds of 1999	4.375	12/21/99	1-1-2015/29	\$ 382,000	\$ 266,500	\$	\$ 11,800	\$ 254,700	\$ 12,400	\$ 11,141
G.O. Improvement Bonds of 2007A	4.1 - 4.45	08/01/07	2-1-2015/23	1,695,000	1,210,000		110,000	1,100,000	115,000	44,550
G.O. Improvement Bonds of 2009A	3.75 - 5.5	09/01/09	2-1-2015/25	1,735,000	1,300,000		170,000	1,130,000	175,000	50,144
G.O. Improvement Bonds of 2010A	2.7 - 5.5	07/01/10	2-1-2015/26	1,030,000	955,000		35,000	920,000	35,000	43,710
G.O. Bonds of 2006A		11/02/06		970,000	690,000		690,000			
G.O. Bonds of 2006A		11/02/06		310,000	210,000		210,000			
G.O. Refunding & Crossover, 2009B		11/01/09		245,000	65,000		65,000			
G.O. Refunding & Crossover, 2009B	2.5 - 3.2	11/01/09	2-1-2015/19	505,000	345,000		55,000	290,000	55,000	8,575
G.O. Refunding & Crossover, 2009B	2.5 - 3.2	11/01/09	2-1-2015/19	3,045,000	1,930,000		440,000	1,490,000	395,000	37,386
G.O. Refunding & Crossover, 2012	0.5 - 2.45	03/14/12	2-1-2015/26	1,270,000	1,270,000		115,000	1,155,000	115,000	15,183
G.O. Refunding & Crossover, 2012	0.5 - 2.45	03/14/12	2-1-2015/26	660,000	660,000			660,000	85,000	1,854
G.O. Refunding & Crossover, 2012	0.5 - 2.45	03/14/12	2-1-2015/26	190,000	190,000			190,000	20,000	7,731
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2015/26	337,745	306,000		22,000	284,000	22,000	3,976
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2015/26	148,475	135,000		10,000	125,000	10,000	1,739
G.O. Improvement Bonds of 2011A	2.0-3.4	09/01/11	2-1-2015/27	990,000	935,000		55,000	880,000	60,000	23,323
G.O. Improvement Bonds 2013	3.0-3.8	10/02/13	2-1-2015/29	1,115,000	1,115,000			1,115,000	55,000	35,220
G.O. Bonds 2014 Crossover Refunded 2007A	3.0-4.0	09/10/14	2-1-2016/23	760,000		760,000		760,000		22,113
Total					<u>11,582,500</u>	<u>760,000</u>	<u>1,988,800</u>	<u>10,353,700</u>	<u>1,154,400</u>	<u>306,645</u>
General Obligation Revenue Bonds										
G.O. Utility Revenue Bond, 2008A	4.0 - 4.7	11/01/08	2-1-2015/24	860,000	680,000		50,000	630,000	55,000	26,895
G.O. Revenue Bonds - PFA	2.8	11/19/99	8-20-2015/19	607,436	225,000		35,000	190,000	36,000	5,301
G.O. Bonds (MPFA)	1	11/16/12	8-20-2015/42	3,014,667	2,411,246	571,788	96,000	2,887,034	90,034	28,721
G.O. Bonds (MPFA)	2.7	01/28/09	8-20-2015/28	2,422,209	1,992,000		109,000	1,883,000	112,000	51,651
G.O. Improvement Bonds 2012B	1.1 - 2.4	03/28/12	11-1-2015/20	835,000	635,000		125,000	510,000	125,000	9,440
G.O. Bonds 2014 Crossover Refunded 2008A	3.0-4.0	09/10/14	2-1-2017/24	510,000		510,000		510,000		15,470
Total					<u>5,943,246</u>	<u>1,081,788</u>	<u>415,000</u>	<u>6,610,034</u>	<u>418,034</u>	<u>137,478</u>
Revenue Bonds										
Gas Utility Refunding Bond 2009C	3.0 - 4.7	11/17/09	6-1-2015/29	4,060,000	3,470,000		165,000	3,305,000	165,000	136,921
Total					<u>3,470,000</u>		<u>165,000</u>	<u>3,305,000</u>	<u>165,000</u>	<u>136,921</u>
Total Bonds										
					<u>20,995,746</u>	<u>1,841,788</u>	<u>2,568,800</u>	<u>20,268,734</u>	<u>1,737,434</u>	<u>581,044</u>
Loans										
U.S. Department of Agriculture	1.0	11/28/94	11-28-2015/24	1,000,000	423,809		36,887	386,922	37,229	3,895
U.S. Department of Agriculture	1.0	04/24/98	4-24-2015/28	775,000	441,820		27,459	414,361	27,711	4,165
Contract for Deed	1.3	07/01/11	7-1-2015/18	312,000	196,234		38,240	157,994	38,737	2,013
Total					<u>1,061,863</u>		<u>102,586</u>	<u>959,277</u>	<u>103,677</u>	<u>10,073</u>
Other Long-term Debt										
Lease-Purchase Agreement	2.75	11/01/11	4-1-2015/17	777,138	555,962		133,330	422,632	137,035	10,217
Total Primary Government Indebtedness										
					<u>22,613,571</u>	<u>1,841,788</u>	<u>2,804,716</u>	<u>21,650,643</u>	<u>1,978,146</u>	<u>601,334</u>
Loans Payable										
United Community Bank	5.0	11/15/04	10-15-2015/21	300,000	180,000			180,000	20,000	6,300
VGM Financial Services		04/28/12	11-15-2015/16	93,136	55,881	31,267	18,624	68,524	18,624	
Total Component Unit Indebtedness										
					<u>235,881</u>	<u>31,267</u>	<u>18,624</u>	<u>248,524</u>	<u>38,624</u>	<u>6,300</u>
Total Indebtedness										
					<u>\$ 22,849,452</u>	<u>\$ 1,873,055</u>	<u>\$ 2,823,340</u>	<u>\$ 21,899,167</u>	<u>\$ 2,016,770</u>	<u>\$ 607,634</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, 2014, and the related notes to the financial statements, and have issued our report thereon dated June 8, 2015. 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 8, 2015



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, 2014, which collectively comprise the City of Perham, Minnesota's basic financial statements and have issued our report thereon dated June 8, 2015. 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 City'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 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

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 8, 2015



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, 2014. 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, 2014.

Report on Internal Control Over Compliance

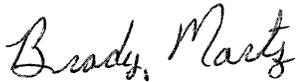
Management of the City of Perham, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance 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 8, 2015

**CITY OF PERHAM, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass- Through Number	Federal CFDA Number	Amount
<u>Environmental Protection Agency</u>			
Passed-Through Minnesota Public Facilities Authority: Capitalization Grants for Clean Water State Revolving Funds	MPFA-11-0013-R-FY12	66.458	\$ <u>571,788</u>
Total Environmental Protection Agency			<u>571,788</u>
<u>U.S. Department of Transportation</u>			
Passed-Through Minnesota Department of Transportation: Safe Routes to School Grant		20.205	<u>1,856</u>
Total U.S. Department of Transportation			<u>1,856</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 573,644</u></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			\$ 573,644
Build America Bond - Interest Refunded			32,823
Less: Loan Proceeds			<u>(571,788)</u>
			<u><u>\$ 34,679</u></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, 2014**

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, 2014. The balance of loans issued in prior year was \$2,852,246. During the year, loans totaling \$571,788 were issued; the proceeds were reported on the schedule of expenditures of federal awards.

Program Title	Issue Amount	CFDA	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	\$ 337,745	66.458	\$ 284,000
Capitalization Grants for Drinking Water State Revolving Funds	148,475	66.468	125,000
Capitalization Grants for Clean Water State Revolving Funds	3,014,667	66.458	2,887,034

NOTE 3. SUBRECIPIENTS

During 2014, the City did not pass any federal money to subrecipients.

**CITY OF PERHAM, MINNESOTA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2014**

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
	2014A G.O. Refunding Bonds Fund	Unmodified
	Permanent Improvement 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

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, 2014**

Section II-Financial Statement Findings

2014-001

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, 2014**

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