

**CITY OF PERHAM
PERHAM, MINNESOTA**

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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CITY OF PERHAM, MINNESOTA
CITY OFFICIALS
YEAR ENDED DECEMBER 31, 2015

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, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Perham, Minnesota's basic financial statements. The combining nonmajor fund statements and schedules as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining 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 22, 2016, 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 22, 2016

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

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, 2015.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$42,116,326 (net position). Of this amount, \$7,278,708 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 \$857,037, or 54% of the total general fund expenditures, an increase of \$95,135 over the year ended 2014.

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, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development, and airport. The business-type activities of the City include, liquor, 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, 2015**

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, 2015 G.O. Improvement Bonds, 2015 Improvement Project, and Permanent Improvement Fund, all of which are considered major funds. Data from the other 21 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and the major special revenue fund to demonstrate compliance with this budget.

Proprietary Funds. The City maintains five different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its liquor operations, gas, sewer and wastewater, water, and recycling.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the liquor operations, gas, sewer and wastewater, and water, all of which are considered major funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budgetary comparisons.

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

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 \$42,116,326 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 13,286,129	\$ 13,041,682	\$ 6,497,418	\$ 6,864,114	\$ 19,783,547	\$ 19,905,796
Capital Assets	25,439,441	20,802,370	24,431,530	22,510,252	49,870,971	43,312,622
Total Assets	<u>38,725,570</u>	<u>33,844,052</u>	<u>30,928,948</u>	<u>29,374,366</u>	<u>69,654,518</u>	<u>63,218,418</u>
Deferred Outflows of Resources	155,895		66,951		222,846	
Long-term Liabilities	14,021,583	11,294,029	11,961,238	10,574,701	25,982,821	21,868,730
Other Liabilities	689,096	719,811	938,244	1,479,027	1,627,340	2,198,838
Total Liabilities	<u>14,710,679</u>	<u>12,013,840</u>	<u>12,899,482</u>	<u>12,053,728</u>	<u>27,610,161</u>	<u>24,067,568</u>
Deferred Inflows of Resources	98,026		52,851		150,877	
Net Position						
Net Investment in Capital						
Assets	13,130,842	11,151,722	13,532,311	11,992,514	26,663,153	23,144,236
Restricted	7,546,579	7,015,623	627,886	750,518	8,174,465	7,766,141
Unrestricted	3,395,339	3,662,867	3,883,369	4,577,606	7,278,708	8,240,473
Total Net Position	<u>\$ 24,072,760</u>	<u>\$ 21,830,212</u>	<u>\$ 18,043,566</u>	<u>\$ 17,320,638</u>	<u>\$ 42,116,326</u>	<u>\$ 39,150,850</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, 2015**

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues						
Charges for Services	\$ 427,314	\$ 465,935	\$ 12,649,101	\$ 15,218,758	\$ 13,076,415	\$ 15,684,693
Operating Grants and Contributions	677,735	432,030			677,735	432,030
Capital Grants and Contributions	4,310,409	166,133			4,310,409	166,133
General Revenues						
Taxes	1,815,028	1,806,287			1,815,028	1,806,287
Unrestricted State Aid	600,523	584,308	16,833	4,549	617,356	588,857
Unrestricted Investment Earnings	124,216	149,134	37,550	29,123	161,766	178,257
Gain on Sale of Capital Assets	15,738	914,735	12,659	91,132	28,397	1,005,867
Other General Revenue	269,086	193,144			269,086	193,144
Total Revenues	<u>8,240,049</u>	<u>4,711,706</u>	<u>12,716,143</u>	<u>15,343,562</u>	<u>20,956,192</u>	<u>20,055,268</u>
Expenses						
General Government	426,960	467,450			426,960	467,450
Public Safety	949,499	941,691			949,499	941,691
Public Works	2,039,208	795,706			2,039,208	795,706
Culture and Recreation	875,464	595,938			875,464	595,938
Economic Development	664,726	471,821			664,726	471,821
Airport	209,074	135,550			209,074	135,550
Interest on Long-term Debt	279,435	329,237			279,435	329,237
Municipal Liquor			2,845,162	2,673,213	2,845,162	2,673,213
Gas			6,861,165	9,622,554	6,861,165	9,622,554
Sewer and Wastewater			1,354,671	1,262,868	1,354,671	1,262,868
Water			585,438	620,788	585,438	620,788
Recycling			75,018	70,797	75,018	70,797
Total Expenses	<u>5,444,366</u>	<u>3,737,393</u>	<u>11,721,454</u>	<u>14,250,220</u>	<u>17,165,820</u>	<u>17,987,613</u>
Change in Net Position Before Transfers	2,795,683	974,313	994,689	1,093,342	3,790,372	2,067,655
Transfers	<u>(72,980)</u>	<u>439,572</u>	<u>72,980</u>	<u>(439,572)</u>		
Change in Net Position	<u>2,722,703</u>	<u>1,413,885</u>	<u>1,067,669</u>	<u>653,770</u>	<u>3,790,372</u>	<u>2,067,655</u>
Net Position - January 1 GASB 68 & 71	21,830,212	20,416,327	17,320,638	16,666,868	39,150,850	37,083,195
Adjustment - See Note 2	<u>(480,155)</u>		<u>(344,741)</u>		<u>(824,896)</u>	
Net Position - January 1, Restated	<u>21,350,057</u>	<u>20,416,327</u>	<u>16,975,897</u>	<u>16,666,868</u>	<u>38,325,954</u>	<u>37,083,195</u>
Net Position - December 31	<u>\$ 24,072,760</u>	<u>\$ 21,830,212</u>	<u>\$ 18,043,566</u>	<u>\$ 17,320,638</u>	<u>\$ 42,116,326</u>	<u>\$ 39,150,850</u>

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

Governmental activities. Governmental activities increased the City's net position by \$2,722,703. 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 \$1,067,669. 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	Percentage
	12/31/2015	12/31/2014	(Decrease)	Increase (Decrease)
Governmental Funds				
General Fund	\$ 857,037	\$ 761,902	\$ 95,135	12%
Economic Development				
Revolving Loan	1,931,509	1,895,302	36,207	2%
1996 IRP Loan Program	2,086,418	2,127,967	(41,549)	-2%
2009 G.O. Improvement Bonds	126,081	154,307	(28,226)	-18%
2015 Improvement Bonds	200,717		200,717	100%
2015 Improvement Project	(213,393)		(213,393)	-100%
Permanent Improvement	1,222,371	955,355	267,016	28%
Proprietary Funds				
Gas	2,475,302	2,515,807	(40,505)	-2%
Sewer and Wastewater	8,572,156	8,207,051	365,105	4%
Water	5,199,485	4,792,656	406,829	8%
Municipal Liquor	1,681,248	1,688,793	(7,545)	0%

- The general fund increased as budgeted and due to ice and snow expenses being down. The City also received insurance dividends during the year.

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

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, 2015, amounts to \$49,870,971 (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			
	2015	2014	2015	2014	2015	2014
Land	\$ 540,015	\$ 541,025	\$ 1,541,067	\$ 1,524,867	\$ 2,081,082	\$ 2,065,892
Construction In Process	3,277,504	456,319	1,487,553	465	4,765,057	456,784
Buildings	5,370,053	3,100,781	773,071	812,623	6,143,124	3,913,404
Improvements Other Than Buildings	13,952,877	14,422,520	19,791,729	19,357,349	33,744,606	33,779,869
Machinery and Equipment	2,298,992	2,281,725	838,110	814,948	3,137,102	3,096,673
Total	\$ 25,439,441	\$ 20,802,370	\$ 24,431,530	\$ 22,510,252	\$ 49,870,971	\$ 43,312,622

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

- Completion of the public works garage.
- Street Sweeper.
- 2015 street improvement project.
- Gas line extensions
- TBS station

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

Long-term Liabilities. At the end of the current fiscal year, the City had \$24,495,943 in bonds and other long-term obligations.

Outstanding Debt

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 10,164,300	\$ 9,873,700	\$ 1,985,000	\$ 480,000	\$ 12,149,300	\$ 10,353,700
General Obligation Revenue Bonds	2,098,737	510,000	5,807,000	6,100,034	7,905,737	6,610,034
Revenue Bonds			3,140,000	3,305,000	3,140,000	3,305,000
Loans Payable	896,045	801,283	119,264	157,994	1,015,309	959,277
Lease/Purchase Agreement			285,597	422,632	285,597	422,632
Total	\$ 13,159,082	\$ 11,184,983	\$ 11,336,861	\$ 10,465,660	\$ 24,495,943	\$ 21,650,643

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

Economic Factors

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

Water and wastewater capacity has been improved greatly over the past few years. 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 has caused the Town Border Station (TBS) to be undersized. The City has taken on a project to increase the output by building a new TBS. Bonds were issued in 2015 to help finance the project.

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 \$2,163,000 with major developments and housing. Commercial permits totaled over \$11,210,000 with industrial additions leading to an increase of job growth. Job growth is steadily increasing. Property valuations are remaining steady. Future years will require additional bonding and construction projects related to replacing and improving existing infrastructure and utility extensions to keep pace with the community's continued industrial, commercial, and residential growth.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Officer, City of Perham, 125 Second Avenue N.E., P.O. Box 130, Perham, MN 56573.

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**CITY OF PERHAM, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

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	\$ 6,283,368	\$ 3,671,919	\$ 9,955,287	\$ 533,544	\$ 83,277
Investments in Escrow		528,148	528,148		
Receivables					
Accounts (Net of Allowance)	143,183	820,044	963,227	38,055	97,618
Interest Receivable	9,009		9,009		
Current Taxes	6,998		6,998		
Delinquent Taxes	15,499		15,499		
Special Assessments	4,161,387	3,937	4,165,324		
Notes Receivable (Net of Allowance)	2,459,240	175,230	2,634,470		
Internal Balances	(342,072)	342,072			
Due from Other Governments	358,993		358,993		
Inventory		328,182	328,182	689	40,049
Restricted Cash:					
Bond Covenants		627,886	627,886		
Deferred Charges				1,088	
Net Pension Asset - VFD	190,524		190,524		
Capital Assets					
Land	540,015	1,541,067	2,081,082	41,130	
Construction In Process	3,277,504	1,487,553	4,765,057		
Buildings	7,319,660	966,374	8,286,034	3,004,699	
Improvements Other than Buildings	18,974,754	27,971,696	46,946,450		270,892
Machinery and Equipment	3,934,680	1,775,024	5,709,704	581,705	819,959
Less: Accumulated Depreciation	(8,607,172)	(9,310,184)	(17,917,356)	(2,050,207)	(702,180)
Total Capital Assets, Net of Depreciation	<u>25,439,441</u>	<u>24,431,530</u>	<u>49,870,971</u>	<u>1,577,327</u>	<u>388,671</u>
TOTAL ASSETS	<u>38,725,570</u>	<u>30,928,948</u>	<u>69,654,518</u>	<u>2,150,703</u>	<u>609,615</u>
DEFERRED OUTFLOWS OF RESOURCES					
Cost Sharing Defined Benefit Pension Plan	155,895	66,951	222,846		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>155,895</u>	<u>66,951</u>	<u>222,846</u>		
LIABILITIES					
Accounts Payable	569,155	792,612	1,361,767	20,638	5,324
Accrued Payroll	27,556	21,084	48,640	20,519	2,180
Revolving Line of Credit					114,000
Consumer Deposits		60,450	60,450		
Unearned Revenue		6,946	6,946	119,514	3,558
Accrued Interest Payable	92,385	57,152	149,537		
Noncurrent Liabilities					
Due Within One Year	1,419,895	1,274,782	2,694,677		38,306
Due in More than One Year	12,601,688	10,686,456	23,288,144		105,839
TOTAL LIABILITIES	<u>14,710,679</u>	<u>12,899,482</u>	<u>27,610,161</u>	<u>160,671</u>	<u>269,207</u>
DEFERRED INFLOWS OF RESOURCES					
Cost Sharing Defined Benefit Pension Plan	98,026	52,851	150,877		
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>98,026</u>	<u>52,851</u>	<u>150,877</u>		
NET POSITION					
Net Investment in Capital Assets	13,130,842	13,532,311	26,663,153	1,577,327	244,526
Restricted for:					
Park	50,000		50,000		
TIF Districts	381,380		381,380		
Development	20,749		20,749		
Lodging Tax	30,193		30,193		
Debt Service	7,064,257		7,064,257		
Bond Covenants		627,886	627,886		
Unrestricted	3,395,339	3,883,369	7,278,708	412,705	95,882
TOTAL NET POSITION	<u>\$ 24,072,760</u>	<u>\$ 18,043,566</u>	<u>\$ 42,116,326</u>	<u>\$ 1,990,032</u>	<u>\$ 340,408</u>

See Notes to the Financial Statements

**CITY OF PERHAM, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

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	\$ 426,960	\$ 162,024	\$ 23,150	\$	\$ (241,786)	\$	\$ (241,786)	\$	\$
Public Safety	949,499	87,870	211,534	2,450	(647,645)		(647,645)		
Public Works	2,039,208	42,526	4,765	2,859,373	867,456		867,456		
Culture and Recreation	875,464	8,332	45,483	1,359,317	537,668		537,668		
Economic Development	664,726	57,764	325,589		(281,373)		(281,373)		
Airport	209,074	68,798	36,763	89,269	(14,244)		(14,244)		
Interest on Long-term Debt	279,435		30,451		(248,984)		(248,984)		
Total Governmental Activities	<u>5,444,366</u>	<u>427,314</u>	<u>677,735</u>	<u>4,310,409</u>	<u>(28,908)</u>		<u>(28,908)</u>		
<i>Business-type Activities:</i>									
Municipal Liquor	2,845,162	3,234,887				389,725	389,725		
Gas	6,861,165	7,278,280				417,115	417,115		
Sewer and Wastewater	1,354,671	1,284,910				(69,761)	(69,761)		
Water	585,438	775,454				190,016	190,016		
Recycling	75,018	75,570				552	552		
Total Business-type Activities	<u>11,721,454</u>	<u>12,649,101</u>				<u>927,647</u>	<u>927,647</u>		
Total Primary Government	<u>\$ 17,165,820</u>	<u>\$ 13,076,415</u>	<u>\$ 677,735</u>	<u>\$ 4,310,409</u>	<u>(28,908)</u>	<u>927,647</u>	<u>898,739</u>		
<i>Component Unit:</i>									
Perham Area Community Center	\$ 910,686	\$ 869,552	\$	\$ 87,109				45,975	
Perham Golf Course	646,726	639,408	363,100						355,782
Total Component Units	<u>\$ 1,557,412</u>	<u>\$ 1,508,960</u>	<u>\$ 363,100</u>	<u>\$ 87,109</u>				<u>45,975</u>	<u>355,782</u>
<i>General Revenues:</i>									
Property Taxes					1,701,786		1,701,786		
Hotel/Motel Taxes					50,598		50,598		
Taxes Franchise Fees					62,644		62,644		
Unrestricted State Aid					600,523	16,833	617,356		
Unrestricted Investment Earnings					124,216	37,550	161,766	1,535	
Gain on Sale of Capital Assets					15,738	12,659	28,397		
Other General Revenue					269,086		269,086		
Transfers					(72,980)	72,980			
Total General Revenues and Transfers					<u>2,751,611</u>	<u>140,022</u>	<u>2,891,633</u>	<u>1,535</u>	
Change in Net Position					<u>2,722,703</u>	<u>1,067,669</u>	<u>3,790,372</u>	<u>47,510</u>	<u>355,782</u>
Net Position - January 1					21,830,212	17,320,638	39,150,850	1,942,522	(15,374)
GASB 68 and 71 Adjustment - See Note 2					(480,155)	(344,741)	(824,896)		
Net Position - January 1, Restated					<u>21,350,057</u>	<u>16,975,897</u>	<u>38,325,954</u>	<u>1,942,522</u>	<u>(15,374)</u>
Net Position - December 31					<u>\$ 24,072,760</u>	<u>\$ 18,043,566</u>	<u>\$ 42,116,326</u>	<u>\$ 1,990,032</u>	<u>\$ 340,408</u>

See Notes to the Financial Statements

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

Exhibit A-3

	General	Economic Develop- ment Revolving Loan	1996 IRP Loan Program	2009B G.O. Improve- ment Bonds	2015 G.O. Improve- ment Bonds	2015 Improve- ment Project	Permanent Improvement	Total Nonmajor Funds	Total Govern- mental Funds
ASSETS									
Cash and Investments	\$ 837,304	\$ 805,549	\$ 756,850	\$ 126,081	\$ 200,717	\$	\$ 1,312,412	\$ 2,244,455	\$ 6,283,368
Receivables									
Accounts	10,394					44,346	80,310	8,133	143,183
Interest	9,009								9,009
Tax									
Current	2,260	300					1,034	3,404	6,998
Delinquent	2,297	345					1,051	11,806	15,499
Special Assessments									
Delinquent				540				4,574	5,114
Noncurrent	260			718,136	1,016,905		19,529	2,401,443	4,156,273
Notes Receivable		1,129,431	1,329,809						2,459,240
Due from Other Funds	48,456								48,456
Due from Other Governments	11,405						347,588		358,993
TOTAL ASSETS	\$ 921,385	\$ 1,935,625	\$ 2,086,659	\$ 844,757	\$ 1,217,622	\$ 44,346	\$ 1,761,924	\$ 4,673,815	\$ 13,486,133
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES									
LIABILITIES									
Accounts Payable	\$ 41,007	\$ 372	\$ 241	\$	\$	\$ 216,482	\$ 259,131	\$ 51,922	\$ 569,155
Accrued Payroll	20,784	3,399						3,373	27,556
Due to Other Funds						41,257	259,842	89,429	390,528
Total Liabilities	<u>61,791</u>	<u>3,771</u>	<u>241</u>			<u>257,739</u>	<u>518,973</u>	<u>144,724</u>	<u>987,239</u>
DEFERRED INFLOWS OF RESOURCES									
Unavailable Revenue	2,557	345		718,676	1,016,905		20,580	2,417,823	4,176,886
Total Deferred Inflows of Resources	<u>2,557</u>	<u>345</u>		<u>718,676</u>	<u>1,016,905</u>		<u>20,580</u>	<u>2,417,823</u>	<u>4,176,886</u>
FUND BALANCES									
Nonspendable - Endowment								50,000	50,000
Restricted for:									
TIF District								372,993	372,993
Marketing								30,194	30,194
Development								20,751	20,751
Debt Service			2,086,418	126,081	200,717			1,495,844	3,909,060
Committed for:									
Development		159,400							159,400
Revolving Loans		1,772,109							1,772,109
Library								75,073	75,073
Fire and Rescue								3,031	3,031
Storm Sewer								73,064	73,064
Assigned for:									
Capital Projects							36,793		36,793
Golf Course							1,024,708		1,024,708
Fairgrounds							120,870		120,870
PACC							40,000		40,000
Park								4,140	4,140
Unassigned	857,037					(213,393)		(13,822)	629,822
Total Fund Balances	<u>857,037</u>	<u>1,931,509</u>	<u>2,086,418</u>	<u>126,081</u>	<u>200,717</u>	<u>(213,393)</u>	<u>1,222,371</u>	<u>2,111,268</u>	<u>8,322,008</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 921,385	\$ 1,935,625	\$ 2,086,659	\$ 844,757	\$ 1,217,622	\$ 44,346	\$ 1,761,924	\$ 4,673,815	\$ 13,486,133

See Notes to the Financial Statements

**CITY OF PERHAM, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Exhibit A-4

Total fund balances - governmental funds	\$ 8,322,008
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	34,046,613
Less accumulated depreciation	(8,607,172)
Deferred outflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	155,895
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	(12,263,037)
Net Pension Liability	(722,614)
Other Long-Term Obligations	(896,045)
Issuance Discounts (to be amortized as interest expense)	(45,558)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources, and, therefore are not reported in the governmental funds.	(98,026)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(92,385)
Compensated absence payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.	(94,329)
Net pension assets are not financial resources and, therefore, are not reported in the governmental funds.	190,524
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.	<u>4,176,886</u>
Net position - governmental activities	<u>\$ 24,072,760</u>

CITY OF PERHAM, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

Exhibit A-5

	General	Economic Development Revolving Loan	1996 IRP Loan Program	2009B G.O. Improvement Bonds	2015 G.O. Improvement Bonds	2015 Improvement Project	Permanent Improvement	Total Nonmajor Funds	Total Governmental Funds
REVENUES									
Property Taxes	\$ 367,478	\$ 54,965	\$	\$ 36	\$	\$	\$ 201,205	\$ 1,073,855	\$ 1,697,539
Hotel/Motel Tax								50,598	50,598
Special Assessments	562			80,059	178,787		5,200	403,965	668,573
Licenses and Permits	104,109								104,109
Intergovernmental									
Federal		200,000		16,269			204,264	16,632	437,165
State	701,890	247					393,182	72,995	1,168,314
Local	4,765					1,241,901		135,215	1,381,881
Charges for Services	106,280	21,000						103,555	230,835
Fines and Forfeitures	21,802								21,802
Miscellaneous									
Interest on Loans Receivable		65,145	57,426						122,571
Interest on Investments	1,936	2,459	2,008	1,004			6,949	18,052	32,408
Rents							26,869	67,730	94,599
Contributions	200	5,000					1,148,092	22,228	1,175,520
Reimbursements	48,776					7,866	96,732	1,090	154,464
Other Receipts	64,819	31,442	3,018				1,601	11,011	111,891
Total Revenues	<u>1,422,617</u>	<u>380,258</u>	<u>62,452</u>	<u>97,368</u>	<u>178,787</u>	<u>1,249,767</u>	<u>2,084,094</u>	<u>1,976,926</u>	<u>7,452,269</u>
EXPENDITURES									
Current									
General Government	373,272								373,272
Public Safety	552,479							258,829	811,308
Public Works	263,281							9,618	272,899
Culture and Recreation	354,387							183,672	538,059
Economic Development		370,576	10,000					279,147	659,723
Airport	54,679								54,679
Debt Service									
Principal			64,989	175,000			85,000	964,400	1,289,389
Interest			8,012	50,144			4,313	231,738	294,207
Fees				450				2,945	3,395
Capital Outlay									
General Government							630,139		630,139
Public Safety							30,684	4,150	34,834
Public Works						4,578,364	2,456,773	178,595	7,213,732
Culture and Recreation							45,963		45,963
Airport							94,990		94,990
Total Expenditures	<u>1,598,098</u>	<u>370,576</u>	<u>83,001</u>	<u>225,594</u>	<u></u>	<u>4,578,364</u>	<u>3,347,862</u>	<u>2,113,094</u>	<u>12,316,589</u>
REVENUES OVER (UNDER) EXPENDITURES									
	<u>(175,481)</u>	<u>9,682</u>	<u>(20,549)</u>	<u>(128,226)</u>	<u>178,787</u>	<u>(3,328,597)</u>	<u>(1,263,768)</u>	<u>(136,168)</u>	<u>(4,864,320)</u>
OTHER FINANCING SOURCES (USES)									
Debt Issued, Net					21,930	3,120,102	824,697	116,419	4,083,148
Sale of Capital Asset	7,500	5,525					5,000		18,025
Transfers In	263,116	21,000		100,000			735,953	331,035	1,451,104
Transfers Out			(21,000)				(34,866)	(353,468)	(409,334)
Payment Refunding Bond								(985,000)	(985,000)
Total Other Financing Sources (Uses)	<u>270,616</u>	<u>26,525</u>	<u>(21,000)</u>	<u>100,000</u>	<u>21,930</u>	<u>3,120,102</u>	<u>1,530,784</u>	<u>(891,014)</u>	<u>4,157,943</u>
NET CHANGE IN FUND BALANCES									
	<u>95,135</u>	<u>36,207</u>	<u>(41,549)</u>	<u>(28,226)</u>	<u>200,717</u>	<u>(208,495)</u>	<u>267,016</u>	<u>(1,027,182)</u>	<u>(706,377)</u>
FUND BALANCE, JANUARY 1									
	<u>761,902</u>	<u>1,895,302</u>	<u>2,127,967</u>	<u>154,307</u>	<u></u>	<u>(4,898)</u>	<u>955,355</u>	<u>3,138,450</u>	<u>9,028,385</u>
FUND BALANCE, DECEMBER 31									
	<u>\$ 857,037</u>	<u>\$ 1,931,509</u>	<u>\$ 2,086,418</u>	<u>\$ 126,081</u>	<u>\$ 200,717</u>	<u>\$ (213,393)</u>	<u>\$ 1,222,371</u>	<u>\$ 2,111,268</u>	<u>\$ 8,322,008</u>

See Notes to the Financial Statements

**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, 2015**

Exhibit A-6

Total net change in fund balances - governmental funds	\$ (706,377)
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	5,482,603
Depreciation expense	(843,245)
The net effect of various capital asset transactions decreases net position.	(2,287)
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.	(4,248,737)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,274,638
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.	362
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	772,043
Change in deferred outflows and inflows of resources related to net pension liability	21,483
Change in net pension asset	18,883
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	
Compensated Absences	(12,231)
Pension benefit obligation	(34,432)
Change in net position - governmental activities	<u>\$ 2,722,703</u>

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

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	\$ 809,083	\$ 808,084	\$ 1,196,745	\$ 786,091	\$ 71,916	\$ 3,671,919
Investments in Escrow		528,148				528,148
Accounts Receivable (Net of Allowance)	628,443	136,474	48,673	503	5,951	820,044
Special Assessments Receivable						
Noncurrent		2,871	1,066			3,937
Due from Other Funds			236,378	105,694		342,072
Notes Receivable	175,230					175,230
Inventory				328,182		328,182
Total Current Assets	<u>1,612,756</u>	<u>1,475,577</u>	<u>1,482,862</u>	<u>1,220,470</u>	<u>77,867</u>	<u>5,869,532</u>
NONCURRENT ASSETS						
Restricted Cash:						
Bond Covenants	308,935	318,951				627,886
Capital Assets						
Land	7,000	779,878	533,426	220,763		1,541,067
Construction in Process	1,487,553					1,487,553
Buildings	14,900			951,474		966,374
Machinery and Equipment	794,525	672,338	103,774	110,813	93,574	1,775,024
Improvements Other than Buildings	7,477,094	13,634,543	6,860,059			27,971,696
Less: Accumulated Depreciation	(3,607,826)	(3,700,115)	(1,712,016)	(242,612)	(47,615)	(9,310,184)
Total Capital Assets	<u>6,173,246</u>	<u>11,386,644</u>	<u>5,785,243</u>	<u>1,040,438</u>	<u>45,959</u>	<u>24,431,530</u>
Total Noncurrent Assets	<u>6,482,181</u>	<u>11,705,595</u>	<u>5,785,243</u>	<u>1,040,438</u>	<u>45,959</u>	<u>25,059,416</u>
Total Assets	<u>8,094,937</u>	<u>13,181,172</u>	<u>7,268,105</u>	<u>2,260,908</u>	<u>123,826</u>	<u>30,928,948</u>
DEFERRED OUTFLOWS OF RESOURCES						
Cost Sharing Defined Benefit Pension Plan	21,541	12,226	12,226	20,376	582	66,951
Total Deferred Outflows of Resources	<u>21,541</u>	<u>12,226</u>	<u>12,226</u>	<u>20,376</u>	<u>582</u>	<u>66,951</u>
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	622,223	18,642	13,400	134,238	4,109	792,612
Accrued Payroll	6,502	3,890	3,890	6,681	121	21,084
Consumer Deposits	58,850		1,600			60,450
Accrued Interest Payable	10,974	23,994	20,582	1,602		57,152
Unearned Revenue	6,946					6,946
Current Portion - Long Term Liab.	178,400	793,590	158,850	143,942		1,274,782
Total Current Liabilities	<u>883,895</u>	<u>840,116</u>	<u>198,322</u>	<u>286,463</u>	<u>4,230</u>	<u>2,213,026</u>
NONCURRENT LIABILITIES						
Bonds Payable, Net	4,740,280	4,339,078	1,925,000			11,004,358
Loans Payable		119,264				119,264
Lease/Purchase Agreement				285,597		285,597
Compensated Absences	22,118	18,024	18,024	8,002	119	66,287
Net Pension Liability	156,279	88,699	88,699	147,831	4,224	485,732
Less: Current Portion of						
Long Term Liabilities	(178,400)	(793,590)	(158,850)	(143,942)		(1,274,782)
Total Noncurrent Liabilities	<u>4,740,277</u>	<u>3,771,475</u>	<u>1,872,873</u>	<u>297,488</u>	<u>4,343</u>	<u>10,686,456</u>
Total Liabilities	<u>5,624,172</u>	<u>4,611,591</u>	<u>2,071,195</u>	<u>583,951</u>	<u>8,573</u>	<u>12,899,482</u>
DEFERRED INFLOWS OF RESOURCES						
Cost Sharing Defined Benefit Pension Plan	17,004	9,651	9,651	16,085	460	52,851
Total Deferred Inflows of Resources	<u>17,004</u>	<u>9,651</u>	<u>9,651</u>	<u>16,085</u>	<u>460</u>	<u>52,851</u>
NET POSITION						
Net Investment in Capital Assets	1,432,966	7,438,302	3,860,243	754,841	45,959	13,532,311
Restricted for Bond Covenants	308,935	318,951				627,886
Unrestricted	733,401	814,903	1,339,242	926,407	69,416	3,883,369
Total Net Position	<u>\$ 2,475,302</u>	<u>\$ 8,572,156</u>	<u>\$ 5,199,485</u>	<u>\$ 1,681,248</u>	<u>\$ 115,375</u>	<u>\$ 18,043,566</u>

See Notes to the Financial Statements

CITY OF PERHAM, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

Exhibit A-8

	<u>Gas</u>	<u>Sewer and Wastewater</u>	<u>Water</u>	<u>Municipal Liquor</u>	<u>Nonmajor Recycling</u>	<u>Totals</u>
OPERATING REVENUES						
Sales	\$ 7,086,739	\$	\$	\$ 3,230,584	\$	\$ 10,317,323
Cost of Sales	<u>5,830,749</u>			<u>2,379,053</u>		<u>8,209,802</u>
Gross Profit	1,255,990			851,531		2,107,521
Charges for Services	16,173	1,201,764	750,047		74,461	2,042,445
Other Services	<u>70,954</u>	<u>54,606</u>	<u>23,058</u>	<u>360</u>	<u>897</u>	<u>149,875</u>
Total Operating Revenues	<u>1,343,117</u>	<u>1,256,370</u>	<u>773,105</u>	<u>851,891</u>	<u>75,358</u>	<u>4,299,841</u>
OPERATING EXPENSES						
Purchased Services					49,119	49,119
Professional Fees	178,749	45,455	43,796	15,361	32	283,393
Salaries and Benefits	274,983	158,135	162,579	274,639	6,558	876,894
Utilities	8,554	330,924	39,465	19,400		398,343
Maintenance and Supplies	142,728	133,467	101,136	19,653	9,671	406,655
Insurance	14,627	19,368	5,807	11,388	624	51,814
Depreciation	200,217	420,883	156,919	30,780	5,793	814,592
Other Expenses	<u>58,354</u>	<u>37,110</u>	<u>14,412</u>	<u>83,908</u>	<u>3,221</u>	<u>197,005</u>
Total Operating Expenses	<u>878,212</u>	<u>1,145,342</u>	<u>524,114</u>	<u>455,129</u>	<u>75,018</u>	<u>3,077,815</u>
Operating Income	<u>464,905</u>	<u>111,028</u>	<u>248,991</u>	<u>396,762</u>	<u>340</u>	<u>1,222,026</u>
NONOPERATING REVENUE (EXPENSE)						
Intergovernmental						
State	741	432	15,320	309	31	16,833
Interest on Investments	13,382	4,168	10,253	9,292	455	37,550
Special Assessments		421	400			821
Refunds and Reimbursements	104,414	28,119	1,949	3,943	212	138,637
Loss on Disposal of Capital Assets	(13,160)	(111,930)	(6,200)			(131,290)
Contributions Made				(1,715)		(1,715)
Interest Expense	<u>(136,544)</u>	<u>(87,240)</u>	<u>(55,124)</u>	<u>(9,265)</u>		<u>(288,173)</u>
Total Nonoperating Revenue (Expense)	<u>(31,167)</u>	<u>(166,030)</u>	<u>(33,402)</u>	<u>2,564</u>	<u>698</u>	<u>(227,337)</u>
Income before Contributions and Transfers	433,738	(55,002)	215,589	399,326	1,038	994,689
Capital Contributions		537,055	577,695			1,114,750
Transfers Out	<u>(362,651)</u>	<u>(53,181)</u>	<u>(322,688)</u>	<u>(303,250)</u>		<u>(1,041,770)</u>
Change in Net Position	<u>71,087</u>	<u>428,872</u>	<u>470,596</u>	<u>96,076</u>	<u>1,038</u>	<u>1,067,669</u>
TOTAL NET POSITION, JANUARY 1	2,515,807	8,207,051	4,792,656	1,688,793	116,331	17,320,638
GASB 68 and 71 Adjustment - See Note 2	<u>(111,592)</u>	<u>(63,767)</u>	<u>(63,767)</u>	<u>(103,621)</u>	<u>(1,994)</u>	<u>(344,741)</u>
TOTAL NET POSITION, JANUARY 1 - RESTATED	<u>2,404,215</u>	<u>8,143,284</u>	<u>4,728,889</u>	<u>1,585,172</u>	<u>114,337</u>	<u>16,975,897</u>
TOTAL NET POSITION, DECEMBER 31	<u>\$ 2,475,302</u>	<u>\$ 8,572,156</u>	<u>\$ 5,199,485</u>	<u>\$ 1,681,248</u>	<u>\$ 115,375</u>	<u>\$ 18,043,566</u>

See Notes to the Financial Statements

**CITY OF PERHAM, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

Exhibit A-9

	<u>Gas</u>	<u>Sewer and Wastewater</u>	<u>Water</u>	<u>Municipal Liquor</u>	<u>Nonmajor Recycling</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers and Users	\$ 7,421,512	\$ 1,272,197	\$ 768,175	\$ 3,230,441	\$ 75,734	\$ 12,768,059
Receipts from Interfund Services Provided	2,368					2,368
Payments to Suppliers	(6,741,966)	(590,258)	(196,681)	(2,541,944)	(62,519)	(10,133,368)
Payments for Interfund Services Used				(2,368)		(2,368)
Payments to Employees	(232,401)	(132,121)	(136,565)	(231,361)	(4,349)	(736,797)
Net Cash Provided by Operating Activities	<u>449,513</u>	<u>549,818</u>	<u>434,929</u>	<u>454,768</u>	<u>8,866</u>	<u>1,897,894</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Change in Interfund Loans	28,756		(160,405)	103,233		(28,416)
Nonoperating Revenue	105,155	30,491	2,513	4,252	243	142,654
Nonoperating Expense				(1,715)		(1,715)
Change in Notes Receivable	(36,145)					(36,145)
Transfers to Other Funds	(362,651)	(53,181)	(322,688)	(303,250)		(1,041,770)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(264,885)</u>	<u>(22,690)</u>	<u>(480,580)</u>	<u>(197,480)</u>	<u>243</u>	<u>(965,392)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of Capital Assets	(1,692,955)	(54,799)		(15,656)		(1,763,410)
Payment of Long-Term Debt	(165,000)	(258,764)	(148,000)	(137,035)		(708,799)
Proceeds from Long-Term Debt	1,580,000					1,580,000
Proceeds from Sale of Capital Assets	2,500	7,500	1,000			11,000
Interest on Long-Term Debt	(116,700)	(89,206)	(56,953)	(10,217)		(273,076)
Intergovernmental Revenue			14,950			14,950
Special Assessments Received		421	400			821
Net Cash Used by Capital and Related Financing Activities	<u>(392,155)</u>	<u>(394,848)</u>	<u>(188,603)</u>	<u>(162,908)</u>		<u>(1,138,514)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Earnings	13,382	4,168	10,249	9,292	455	37,546
Net Cash Provided by Investing Activities	<u>13,382</u>	<u>4,168</u>	<u>10,249</u>	<u>9,292</u>	<u>455</u>	<u>37,546</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(194,145)	136,448	(224,005)	103,672	9,564	(168,466)
CASH AND CASH EQUIVALENTS, JANUARY 1	<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>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,118,018</u>	<u>\$ 1,655,183</u>	<u>\$ 1,196,745</u>	<u>\$ 786,091</u>	<u>\$ 71,916</u>	<u>\$ 4,827,953</u>

cont.

See Notes to the Financial Statements

**CITY OF PERHAM, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

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	\$ 464,905	\$ 111,028	\$ 248,991	\$ 396,762	\$ 340	\$ 1,222,026
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities						
Depreciation	200,217	420,883	156,919	30,780	5,793	814,592
Change in:						
Accounts Receivable	245,813	15,827	(5,080)	(503)	376	256,433
Inventory				4,223		4,223
Deferred Outflows of Resources	(16,729)	(9,476)	(9,476)	(15,908)	(497)	(52,086)
Accounts Payable	(508,205)	(23,934)	7,935	(19,772)	148	(543,828)
Accrued Payroll	(1,093)	832	832	3,299	12	3,882
Unearned Revenue	4,051					4,051
Compensated Absences	3,525	2,825	2,825	60	89	9,324
Other Current Liabilities	150		150			300
Net Pension Liability	39,875	22,182	22,182	39,742	2,145	126,126
Deferred Inflows of Resources	17,004	9,651	9,651	16,085	460	52,851
Total Adjustments	<u>(15,392)</u>	<u>438,790</u>	<u>185,938</u>	<u>58,006</u>	<u>8,526</u>	<u>675,868</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 449,513</u>	<u>\$ 549,818</u>	<u>\$ 434,929</u>	<u>\$ 454,768</u>	<u>\$ 8,866</u>	<u>\$ 1,897,894</u>
Noncash Capital and Related Financing						
Gain on Trade-in of Capital Asset	\$	\$ 21,689	\$	\$	\$	\$ 21,689
Acquisition of a Capital Asset through Accounts Payable	33,457					33,457
Capital Contributions		537,055	577,695			1,114,750

See Notes to the Financial Statements

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,

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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 *2015 G.O. improvement bonds fund* accounts for all activities associated with debt service for the 2015 General Obligation Improvement Bonds.

The *2015 improvement project fund* accounts for all activities associated with the 2015 Street Improvement Project.

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

**CITY OF PERHAM, MINNESOTA
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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
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DECEMBER 31, 2015**

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 \$4,150,000.

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 gas, 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
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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, 2015, and is expected to be taken by December 31, 2016, is considered a current liability and is accrued in the December 31, 2015, financial statements. Unused vacation leave 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. Pensions

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

Q. Deferred Outflows/Inflows of Resources

In additions to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/ expenditure) until then. The City has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measurement date.

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

R. Fund Equity

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.

**CITY OF PERHAM, MINNESOTA
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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.

S. Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital 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.

T. Use of Estimates

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

NOTE 2. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

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

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

	Governmental Activities	Business-type Activities				
		Gas	Sewer and Wastewater	Water	Municipal Liquor	Recycling
Net Pension Asset	\$ 171,641	\$	\$	\$	\$	\$
Net Pension Liability	(688,182)	(116,404)	(66,517)	(66,517)	(108,089)	(2,079)
Cost Sharing Defined Benefit Pension Plan	36,386	4,812	2,750	2,750	4,468	85
Decrease in Net Position	<u><u>\$ (480,155)</u></u>	<u><u>\$ (111,592)</u></u>	<u><u>\$ (63,767)</u></u>	<u><u>\$ (63,767)</u></u>	<u><u>\$ (103,621)</u></u>	<u><u>\$ (1,994)</u></u>

NOTE 3. DEFICIT FUND BALANCES

The following funds had deficit fund balances at December 31, 2015.

2015 Improvement Project	\$213,393
Victory Estates	12,176
Interchange Project	1,646

The deficits are expected to be eliminated through future revenues.

**CITY OF PERHAM, MINNESOTA
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NOTE 4. DEPOSITS AND INVESTMENTS

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

	Primary Government	Perham Area Community Center	Perham Golf Course
Cash	\$ 10,583,173	\$ 533,544	\$ 83,277
Investments	528,148		
	<u>\$ 11,111,321</u>	<u>\$ 533,544</u>	<u>\$ 83,277</u>

As of December 31, 2015, the City had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
US Treasury State and Local	\$ 2/1/2016	\$ 528,148

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

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

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the state of Minnesota and rated "A" or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer 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, 2015, the City was not exposed to custodial credit risk.

**CITY OF PERHAM, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5. CAPITAL ASSETS

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

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 541,025	\$	\$ 1,010	\$ 540,015
Construction In Process	456,319	3,259,003	437,818	3,277,504
Total Capital Assets, Not Being Depreciated	<u>997,344</u>	<u>3,259,003</u>	<u>438,828</u>	<u>3,817,519</u>
Capital Assets, Being Depreciated:				
Buildings	4,905,888	2,413,772		7,319,660
Improvements Other Than Buildings	18,952,177	22,577		18,974,754
Machinery and Equipment	3,827,051	236,819	129,190	3,934,680
Total Capital Assets, Being Depreciated	<u>27,685,116</u>	<u>2,673,168</u>	<u>129,190</u>	<u>30,229,094</u>
Less Accumulated Depreciation For:				
Buildings	1,805,107	144,500		1,949,607
Improvements Other Than Buildings	4,529,657	492,220		5,021,877
Machinery and Equipment	1,545,326	206,525	116,163	1,635,688
Total Accumulated Depreciation	<u>7,880,090</u>	<u>843,245</u>	<u>116,163</u>	<u>8,607,172</u>
Total Capital Assets, Being Depreciated, Net	<u>19,805,026</u>	<u>1,829,923</u>	<u>13,027</u>	<u>21,621,922</u>
Governmental Activities Capital Assets, Net	<u>\$ 20,802,370</u>	<u>\$ 5,088,926</u>	<u>\$ 451,855</u>	<u>\$ 25,439,441</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,524,867	\$ 23,400	\$ 7,200	\$ 1,541,067
Construction In Process	465	1,487,088		1,487,553
Total Capital Assets, Not Being Depreciated	<u>1,525,332</u>	<u>1,510,488</u>	<u>7,200</u>	<u>3,028,620</u>
Capital Assets, Being Depreciated:				
Buildings	1,002,850		36,476	966,374
Improvements Other Than Buildings	26,971,240	1,263,321	262,865	27,971,696
Machinery and Equipment	1,732,236	126,041	83,253	1,775,024
Total Capital Assets, Being Depreciated	<u>29,706,326</u>	<u>1,389,362</u>	<u>382,594</u>	<u>30,713,094</u>
Less Accumulated Depreciation For:				
Buildings	190,227	23,891	20,815	193,303
Improvements Other Than Buildings	7,613,891	706,852	140,776	8,179,967
Machinery and Equipment	917,288	83,849	64,223	936,914
Total Accumulated Depreciation	<u>8,721,406</u>	<u>814,592</u>	<u>225,814</u>	<u>9,310,184</u>
Total Capital Assets, Being Depreciated, Net	<u>20,984,920</u>	<u>574,770</u>	<u>156,780</u>	<u>21,402,910</u>
Business-type Activities Capital Assets, Net	<u>\$ 22,510,252</u>	<u>\$ 2,085,258</u>	<u>\$ 163,980</u>	<u>\$ 24,431,530</u>

CITY OF PERHAM, MINNESOTA
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 39,677
Public Safety	152,491
Public Works, including Depreciation of General Infrastructure Assets	437,721
Culture and Recreation	152,126
Economic Development	1,575
Airport	59,655
Total Depreciation Expense - Governmental Activities	\$ <u><u>843,245</u></u>
Business-type Activities:	
Gas	\$ 200,217
Sewer and Wastewater	420,883
Water	156,919
Municipal Liquor	30,780
Recycling	5,793
Total Depreciation Expense - Business-type Activities	\$ <u><u>814,592</u></u>

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	164,356		3,004,699
Machinery and Equipment	579,573	2,132		581,705
Total Capital Assets, Being Depreciated	<u>3,419,916</u>	<u>166,488</u>		<u>3,586,404</u>
Total Accumulated Depreciation	<u>1,906,329</u>	<u>143,878</u>		<u>2,050,207</u>
Total Capital Assets, Being Depreciated, Net	<u>1,513,587</u>	<u>22,610</u>		<u>1,536,197</u>
Perham Area Community Center Capital Assets, Net	<u>\$ 1,554,717</u>	<u>\$ 22,610</u>	<u>\$</u>	<u>\$ 1,577,327</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	\$ 1,676	\$	\$ 270,892
Machinery and Equipment	726,146	103,649	9,836	819,959
Total Capital Assets, Being Depreciated	<u>995,362</u>	<u>105,325</u>	<u>9,836</u>	<u>1,090,851</u>
Less Accumulated Depreciation For:				
Improvements Other than Buildings	66,677	14,147		80,824
Machinery and Equipment	558,276	72,916	9,836	621,356
Total Accumulated Depreciation	<u>624,953</u>	<u>87,063</u>	<u>9,836</u>	<u>702,180</u>
Perham Golf Course Capital Assets, Net	<u>\$ 370,409</u>	<u>\$ 18,262</u>	<u>\$</u>	<u>\$ 388,671</u>

**CITY OF PERHAM, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6. NOTES RECEIVABLE

The City has various notes receivable from individuals and organizations at December 31, 2015, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Special Revenue Funds			
Economic Development Loans	2016 - 2023	0.0 – 6.0%	\$ 1,170,432
Debt Service Funds			
Economic Development Loans	2016 - 2023	0.0 - 6.95%	1,429,808
Gas Fund			
Youth Build Affordable Housing Project Loans		2.5%	<u>175,230</u>
Total			<u>\$ 2,775,470</u>

The provision for uncollectible was \$141,000.

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

At December 31, 2015, the City had a \$91,000 commitment for an uncompleted construction contract for the 2015 Street Project, a \$7,000 commitment for an uncompleted construction contract for the Victory Estates project, a \$5,800 uncompleted construction commitment for the Crack Seal and Surry project, an \$8,300 uncompleted construction commitment for the Safe Routes to School project, and a \$3,400 commitment for an uncompleted construction contract for the Library project.

NOTE 8. DEFINED BENEFIT PENSION PLANS

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

General Employees Retirement Fund (GERF)

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

Public Employees Police and Fire Fund (PEPFF)

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

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

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

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

GERF Benefits

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

PEPFF Benefits

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

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. PEPFF members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members, 7.50% for Coordinated Plan members, and 16.20% for PEPFF members in calendar year 2015. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2015, were \$72,936. The City's contributions to the Public Employees Police & Fire Fund for the year ended December 31, 2015, were \$47,059. The City's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs – At December 31, 2015, the City reported a liability of \$844,751 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0163%.

For the year ended December 31, 2015, the City recognized pension expense of \$96,162 for its proportionate share of GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 42,590
Difference between projected and actual investment earnings	79,969	
Changes in proportion		49,324
Contributions paid to PERA subsequent to the measurement date	36,468	
Total	<u>\$ 116,437</u>	<u>\$ 91,914</u>

\$36,468 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (10,646)
2017	(10,646)
2018	(10,646)
2019	19,993

At December 31, 2015, the City reported a liability of \$363,595 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0320%.

For the year ended December 31, 2015, the City recognized pension expense of \$64,456 for its proportionate share of PEPFF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 58,963
Difference between projected and actual investment earnings	63,350	
Changes in proportion	9,000	
Contributions paid to PERA subsequent to the measurement date	23,530	
Total	<u>\$ 95,880</u>	<u>\$ 58,963</u>

\$23,530 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2016	\$ 5,845
2017	5,845
2018	5,845
2019	5,845
2020	(9,993)

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

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

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GEF was for the period July 1, 2004, through June 20, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

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

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

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

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

	City Proportionate Share of NPL		
	<u>1% Decrease (6.9%)</u>	<u>Current (7.9%)</u>	<u>1% Increase (8.9%)</u>
GERF	\$ 1,328,248	\$ 844,751	\$ 445,456
PEPFF	708,650	363,595	78,519

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; or by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 9. PERHAM FIREFIGHTERS RELIEF ASSOCIATION

The Perham Firefighters Relief Association is the administrator of a single employer lump-sum defined benefit pension plan available to firefighters, retired and active, of the City of Perham. The plan operates under the provisions of Minn. Stat. §§ 69 and 424A. The assets of the fund are dedicated to providing pension benefits to the plan members.

Plan Membership

At December 31, 2014, the membership of the Association consisted of:

Retired and Terminated Members:	
Received Benefits	0
Deferred Benefits	2
Current Members:	
Fully Vested (20 years or more)	5
Partially Vested (10 years to 19 years)	9
Nonvested (less than 10 years)	<u>16</u>
Total	<u>32</u>

Plan provisions are established and may be amended by the Association’s Board of Trustees within the guidelines of the State of Minnesota statutes.

Benefit Provisions

Twenty Year Service Pension

Each member who is at least 50 years of age; has retired from the Perham Fire Department, has served at least twenty (20) years of active service with such department before retirement; shall be entitled to a lump sum service pension in the amount of \$1,900 for each completed full year of service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Ten Year Service, but Less than Twenty Year Service

Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 10 years of active service with such department before retirement, but has not served at least 20 years of active service, shall be entitled to pro-rated sum service pension based on the percentages in the following table:

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For Duty of:		
More than 9 years	Less than 10 years	0%
10	11	60
11	12	64
12	13	68
13	14	72
14	15	76
15	16	80
16	17	84
17	18	88
18	19	92
19	20	96
20	21	100

The payment amount will be calculated by using the amount payable per year of service in effect at the time of such early retirement, multiplied by the number of accumulative years of service, multiplied by the appropriate percentage as defined above.

Disability Benefits

The disability pension payable at age 50 is based on the lump sum pension formula and service at date of disability with regard to vesting.

Death Benefits

Upon the death of any member of the Association who is in good standing at the time of their death, the Association shall pay to the surviving spouse, if any, and if no surviving spouse, to surviving child or children, if any, and if no child or children survive, to the estate of such deceased member, a death benefit. The sum shall be calculated using the lump sum service pension amount in effect at the time of death, and using years of service without regard to any minimum or partial vesting requirements, but in no case shall be less than 5 years of service.

State Supplemental Benefits

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to ten percent of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Perham Fire Department Relief Association qualifies for these benefits.

Funding Requirements

Minnesota Statutes Section 424A.092 specifies minimum contributions required on an annual basis. The minimum contribution from the City of Perham is determined as follows:

- Normal Cost
- + Amortization Payment on Unfunded Actuarial Liability Prior to Any Changes
- + Amortization Contribution on Unfunded Actuarial Liability Attributed to Any Change
- + Administrative Expenses
- Anticipated State Aid
- Projected Investment Earnings @ 5.0 percent

Total Contribution Required

Plan members are volunteers with no contribution requirements.

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Minnesota Statutes Section 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e., there are no covered payroll percentage calculations).

Contributions totaling \$41,232 were made by the State of Minnesota in accordance with State Statute requirements for the year ended December 31, 2014. These contributions were for \$39,232 of normal costs and \$2,000 for supplemental benefits. The City of Perham also made a contribution to the Association of \$13,098. The City's statutorily required contribution was \$0.

Pension Costs

At December 31, 2015, the City reported a net pension asset of \$190,524 for the plan. The net pension asset was measured as of December 31, 2014. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by applying an actuarial formula to specific census data certified by the fire department as of December 31, 2014. The following table presents the changes in net pension liability during the year.

Changes in Net Position Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(c) = (a) - (b)
Balance at previous Measurement Date 12/31/2014	\$ 539,465	\$ 711,106	\$ (171,641)
Changes for the year:			
Service Cost	25,661		25,661
Interest	29,202		29,202
Difference between expected and actual experience			-
Changes of assumptions			-
Changes of benefit terms			-
Contributions - State and local		54,330	(54,330)
Contributions - donations and other income			-
Contributions - member			-
Net investment income		23,603	(23,603)
Other additions (e.g. receivables)			-
Benefit payments, including member contribution refunds	(17,800)	(17,800)	-
Administrative expense		(4,187)	4,187
Other deductions (e.g. payables)			-
Net Changes	37,063	55,946	(18,883)
Balance at current Measurement Date 12/31/2015	\$ 576,528	\$ 767,052	\$ (190,524)

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2015, the City recognized pension expense of \$24,918.

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At December 31, 2015, the City reported deferred outflows of resources related to pension from the following sources:

	<u>Outflows</u>	<u>Inflows</u>
<u>Summary of Deferred Outflows (Inflows)</u>		
A. Difference between expected and actual liability	\$	\$
B. Changes in assumptions		
C. Net difference between projected and actual investment earnings	10,529	
D. Total	<u>\$ 10,529</u>	<u>\$</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year End December 31</u>	<u>Pension Expense Amount</u>
2016	\$ 2,632
2017	2,632
2018	2,632
2019	2,633

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2014, based on the measurement date of December 31, 2014, and using the following actuarial assumptions. The plan has not had a formal actuarial experience study performed.

- Investment rate of return is 5.25%;
- Inflation rate is 2.75%;
- Entry age normal in accordance with the requirements of GASB 67;
- Mortality assumptions for pre-retirement, post-retirement, and post-disability are:
 - Pre-retirement: RP 2000 non-annuitant generational mortality projected with Scale AA, white collar adjustment, male rates set back two years, female rates set back two years
 - Post-retirement: RP 2000 annuitant generational mortality projected with Scale AA, white collar adjustment, without age adjustments.
 - Post-disability: RP 2000 healthy annuitant mortality table, white collar adjustment, set forward eight years for males and females.

Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per the actuary's investment consulting practice as of December 31, 2014.

<u>Asset Class</u>	<u>Allocation at Measurement Date</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long-Term Nominal Rate of Return</u>
Domestic Equity	36.22%	5.25%	8.00%
International Equity	14.47%	5.25%	8.00%
Fixed Income	31.53%	1.75%	4.50%
Real Estate and Alternatives	1.71%	3.75%	6.50%
Cash and Equivalents	16.07%	0.25%	3.00%

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Discount Rate

The discount rate used to measure the total pension liability was 5.25 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at the actual statutory contribution rate. Based on those assumptions, the Association’s net position was projected to be available to make all projected future benefit payments on the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following presents the net pension liability calculated using the discount rate of 5.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (4.25 percent) or one-percentage-point higher (6.25 percent) than the current rate:

<u>1% Decrease (4.25%)</u>	<u>Current (5.25%)</u>	<u>1% Increase (6.25%)</u>
\$ (175,127) \$	(190,524) \$	(205,561)

Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position as of December 31, 2014, is available in a separately-issued financial statement that includes financial statements and required supplementary information. That report may be obtained by writing to Perham Firefighters Relief Association at 525 W Main St, Perham, Minnesota, 56573.

NOTE 10. LONG-TERM DEBT

Primary Government

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$13,863,220. During the year, general obligation bonds totaling \$3,935,000 were issued for street improvement projects and equipment.

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.4 – 5.5%	\$ 6,694,300
Governmental Activities – Refunding	0.65 – 3.2%	3,470,000
Business-type Activities	2.25 – 3.1%	1,580,000
Business-type Activities – Refunding	0.65 – 3.2%	405,000

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 1,109,900	\$ 284,007	\$ 75,000	\$ 50,929
2017	1,186,500	252,527	240,000	45,644
2018	882,000	226,280	250,000	39,237
2019	907,700	203,107	255,000	32,569
2020	798,300	181,467	195,000	25,743
2021-2025	3,518,300	566,530	970,000	56,065
2026-2030	1,586,600	132,283		
2031	175,000	2,712		
	<u>\$ 10,164,300</u>	<u>\$ 1,848,913</u>	<u>\$ 1,985,000</u>	<u>\$ 250,187</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 \$8,249,312. During the year, general obligation bonds totaling \$1,713,737 were issued to finance construction projects.

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.0 – 2.4%	\$2,098,737
Business-type Activities	1.0 – 4.7%	5,297,000
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:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 192,755	\$ 23,790	\$ 818,000	\$ 122,890
2017	169,000	28,727	303,000	92,273
2018	174,000	26,405	314,000	85,330
2019	181,000	23,988	319,000	78,166
2020	181,000	21,081	288,000	70,807
2021-2025	550,000	79,472	1,452,000	250,761
2026-2030	579,000	50,152	976,000	108,063
2031-2035	71,982	6,375	538,000	56,220
2036-2040			565,000	28,750
2041-2042			234,000	3,520
	<u>\$ 2,098,737</u>	<u>\$ 259,990</u>	<u>\$ 5,807,000</u>	<u>\$ 896,780</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	3.3 – 4.7%	\$3,140,000

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2016	\$ 170,000	\$ 131,685
2017	180,000	125,776
2018	185,000	119,153
2019	190,000	111,980
2020	200,000	104,274
2021-2025	1,125,000	387,212
2026-2030	1,090,000	106,404
	<u>\$ 3,140,000</u>	<u>\$ 1,086,484</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 \$349,667 and \$386,628 at December 31, 2015.

The City has the following loans:

<u>Lender</u>	<u>Interest Rates</u>	<u>Amount</u>
U.S. Department of Agriculture	1.0%	\$ 736,295
United Community Bank	3.5%	159,750
Contract for Deed	1.3%	119,264
		<u>\$ 1,015,309</u>

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.0%	\$896,045
Business-type Activities	1.3%	119,264

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 85,590	\$ 13,025	\$ 39,240	\$ 1,510
2017	86,248	11,651	39,750	1,000
2018	86,912	10,288	40,274	483
2019	87,583	8,918		
2020	88,259	7,547		
2021-2025	367,770	15,482		
2026-2028	93,683	1,690		
	<u>\$ 896,045</u>	<u>\$ 68,601</u>	<u>\$ 119,264</u>	<u>\$ 2,993</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%	\$285,597

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2016	\$ 140,842	\$ 6,410
2017	144,755	2,497
	<u>\$ 285,597</u>	<u>\$ 8,907</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:

General Obligation	Refunding Date	Interest Rate	Amount
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, 2015, was as follows:

	Beginning Balance (As Restated)	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Bonds Payable					
General Obligation Bonds	\$ 9,873,700	\$ 2,355,000	\$ 2,064,400	\$ 10,164,300	\$ 1,109,900
General Obligation Revenue Bonds	510,000	1,713,737	125,000	2,098,737	192,755
Subtotal Bonds Payable	<u>10,383,700</u>	<u>4,068,737</u>	<u>2,189,400</u>	<u>12,263,037</u>	<u>1,302,655</u>
Unamortized Premium	26,948	14,410	(4,200)	45,558	(4,200)
Total Bonds Payable	<u>10,410,648</u>	<u>4,083,147</u>	<u>2,185,200</u>	<u>12,308,595</u>	<u>1,298,455</u>
Other Long-term Obligations					
Loans Payable	801,283	180,000	85,238	896,045	85,590
Total Other Long-term Obligations	<u>801,283</u>	<u>180,000</u>	<u>85,238</u>	<u>896,045</u>	<u>85,590</u>
Compensated Absences	82,098	72,496	60,265	94,329	35,850
Net Pension Liability - GERF	353,369	5,650		359,019	
Net Pension Liability - PEPFF	334,813	28,782		363,595	
Governmental Activity Long-term Liabilities	<u>\$ 11,982,211</u>	<u>\$ 4,370,075</u>	<u>\$ 2,330,703</u>	<u>\$ 14,021,583</u>	<u>\$ 1,419,895</u>
<u>Business-type Activities</u>					
Bonds Payable					
General Obligation Bonds	\$ 480,000	\$ 1,580,000	\$ 75,000	\$ 1,985,000	\$ 75,000
General Obligation Revenue Bonds	6,100,034		293,034	5,807,000	818,000
Revenue Bonds	3,305,000		165,000	3,140,000	170,000
Subtotal Bonds Payable	<u>9,885,034</u>	<u>1,580,000</u>	<u>533,034</u>	<u>10,932,000</u>	<u>1,063,000</u>
Unamortized Premium	52,078	20,280		72,358	6,500
Total Bonds Payable	<u>9,937,112</u>	<u>1,600,280</u>	<u>533,034</u>	<u>11,004,358</u>	<u>1,069,500</u>
Other Long-term Obligations					
Lease/Purchase Agreement	422,632		137,035	285,597	140,842
Loans Payable	157,994		38,730	119,264	39,240
Total Other Long-term Obligations	<u>580,626</u>	<u></u>	<u>175,765</u>	<u>404,861</u>	<u>180,082</u>
Compensated Absences	56,963	37,778	28,454	66,287	25,200
Net Pension Liability - GERF	359,606	126,126		485,732	
Business-type Activity Long-term Liabilities	<u>\$ 10,934,307</u>	<u>\$ 1,764,184</u>	<u>\$ 737,253</u>	<u>\$ 11,961,238</u>	<u>\$ 1,274,782</u>

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

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	5.0%	\$127,645

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>
2016	\$ 36,806	\$ 3,759
2017	37,727	2,838
2018	31,769	1,870
2019	21,343	853
	<u>\$ 127,645</u>	<u>\$ 9,320</u>

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2015, 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	\$ 248,524	\$ 95,040	\$ 215,919	\$ 127,645	\$ 36,806
Lifetime Memberships	16,500			16,500	1,500
Component Unit Long-term Liabilities	<u>\$ 265,024</u>	<u>\$ 95,040</u>	<u>\$ 215,919</u>	<u>\$ 144,145</u>	<u>\$ 38,306</u>

NOTE 11. REVOLVING LINE OF CREDIT

Component Unit (Unaudited)

Perham Golf Course entered into a line-of-credit agreement with a bank that permitted the Perham Golf Course to borrow up to \$225,000. The interest rate is 4.75%. The balance outstanding as of December 31, 2015, was \$114,000.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ 147,825	\$	\$ 33,825	\$ 114,000

NOTE 12. CONDUIT DEBT (NO COMMITMENT DEBT)

The City has issued a Municipal Industrial Development Revenue Act Bond to provide financial assistance to a nonprofit corporation for the construction of an existing facility deemed to be in the public interest. This Bond is secured by an assignment of the Loan Agreement, A Guaranty Agreement and a Mortgage, Security Agreement, and Fixture Financing Statement. Accordingly, the Bond is not reported as a liability in the accompanying financial statements.

As of December 31, 2015, the aggregate principal amount payable of the one series issued was \$603,561. The original issue amount totaled \$952,317.

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NOTE 13. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Due to / from other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	2015 Improvement Project	\$ 41,257
General	Nonmajor Governmental	7,199
Municipal Liquor	Nonmajor Governmental	82,230
Water	Permanent Improvement	236,378
Municipal Liquor	Permanent Improvement	23,464
		<u>\$ 390,528</u>

The amount payable is to finance the operation of the fund. Approximately \$130,000 of the balance is scheduled to be collected after 2016.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Municipal Liquor	\$ 113,250
General	Sewer and Wastewater	15,500
General	Water	15,500
General	Gas	84,000
General	Permanent Improvement	34,866
Economic Development Revolving Loan	1996 IRP Loan Program	21,000
2009 G.O. Improvement Bonds	Nonmajor Governmental	100,000
Permanent Improvement	Municipal Liquor	190,000
Permanent Improvement	Sewer and Wastewater	7,651
Permanent Improvement	Water	259,651
Permanent Improvement	Gas	278,651
Nonmajor Governmental	Sewer and Wastewater	30,030
Nonmajor Governmental	Water	47,537
Nonmajor Governmental	Nonmajor Governmental	253,468
		<u>\$ 1,451,104</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.

NOTE 14. MAJOR CUSTOMERS

The City has four major customers, which represent about 52% of the gas, water, and sewer utility revenue.

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

**CITY OF PERHAM, MINNESOTA
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NOTE 15. 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, 2015, 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 16. SUBSEQUENT EVENT

On January 7, 2016, the City issued \$790,000 of General Obligation Refunding Bonds. The interest rate on the bond is 2.0%-2.5% and the maturity date is February 1, 2025.

NOTE 17. NEW PRONOUNCEMENTS

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

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

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

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

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

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

GASB Statement No. 80, *Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

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

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CITY OF PERHAM, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Property Taxes	\$ 370,101	\$ 370,101	\$ 367,478	\$ (2,623)
Special Assessments			562	562
Licenses and Permits	84,000	84,000	104,109	20,109
Intergovernmental				
State				
Local Governmental Aid	599,319	599,319	599,319	
Police Aid	36,000	36,000	39,878	3,878
PERA	648	648	648	
Aviation Maintenance Aid	22,374	22,374	36,763	14,389
Other	2,500	25,450	25,282	(168)
Other Local Government	4,000	4,000	4,765	765
	<u>664,841</u>	<u>687,791</u>	<u>706,655</u>	<u>18,864</u>
Charges for Services				
General Government	39,625	39,625	57,916	18,291
Police Department	2,100	2,100	2,260	160
Airport	63,100	63,100	46,104	(16,996)
	<u>104,825</u>	<u>104,825</u>	<u>106,280</u>	<u>1,455</u>
Fines and Forfeitures	25,000	25,000	21,802	(3,198)
Miscellaneous				
Interest on Investments	2,700	2,700	1,936	(764)
Contributions	5,000	5,000	200	(4,800)
Reimbursements	15,000	49,334	48,776	(558)
Other Receipts	59,500	59,500	64,819	5,319
	<u>82,200</u>	<u>116,534</u>	<u>115,731</u>	<u>(803)</u>
Total Revenues	<u>1,330,967</u>	<u>1,388,251</u>	<u>1,422,617</u>	<u>34,366</u>

cont.

CITY OF PERHAM, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND - Continued
YEAR ENDED DECEMBER 31, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES				
General Government				
Mayor and Council	28,315	28,315	31,418	3,103
Finance / Administration	146,869	146,869	154,838	7,969
Independent Auditors	3,500	3,500	3,366	(134)
Legal Services	37,500	37,500	37,874	374
Planning and Zoning	8,500	8,500	10,538	2,038
Building Inspection Fees	66,500	66,500	97,838	31,338
Municipal Building	32,800	32,800	37,400	4,600
	<u>323,984</u>	<u>323,984</u>	<u>373,272</u>	<u>49,288</u>
Public Safety				
Police Protection	549,119	549,119	544,236	(4,883)
Police Station	11,900	11,900	8,243	(3,657)
	<u>561,019</u>	<u>561,019</u>	<u>552,479</u>	<u>(8,540)</u>
Public Works				
Streets and Alleys	128,054	128,054	175,574	47,520
Snow and Ice Removal	67,155	67,155	27,565	(39,590)
Street Lighting	61,000	61,000	60,142	(858)
	<u>256,209</u>	<u>256,209</u>	<u>263,281</u>	<u>7,072</u>
Culture and Recreation				
Senior Center	31,050	31,050	31,377	327
Municipal Parks	274,110	304,110	323,010	18,900
	<u>305,160</u>	<u>335,160</u>	<u>354,387</u>	<u>19,227</u>
Airport	77,845	77,845	54,679	(23,166)
Total Expenditures	<u>1,524,217</u>	<u>1,554,217</u>	<u>1,598,098</u>	<u>43,881</u>
REVENUES UNDER EXPENDITURES	<u>(193,250)</u>	<u>(165,966)</u>	<u>(175,481)</u>	<u>(9,515)</u>
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets			7,500	7,500
Transfers In	228,250	263,116	263,116	
Transfers Out	(35,000)	(35,000)		35,000
Total Other Financing Sources (Uses)	<u>193,250</u>	<u>228,116</u>	<u>270,616</u>	<u>42,500</u>
NET CHANGE IN FUND BALANCES		62,150	95,135	32,985
FUND BALANCE, JANUARY 1	<u>761,902</u>	<u>761,902</u>	<u>761,902</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 761,902</u>	<u>\$ 824,052</u>	<u>\$ 857,037</u>	<u>\$ 32,985</u>

See Notes to the Required Supplementary Information

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, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Property Taxes	\$ 55,451	\$ 55,451	\$ 54,965	\$ (486)
Intergovernmental - Federal			200,000	200,000
Intergovernmental - State				
PERA	250	250	247	(3)
Charges for Services	22,200	22,200	21,000	(1,200)
Miscellaneous				
Contributions			5,000	5,000
Interest on Investments	4,500	4,500	2,459	(2,041)
Interest on Loans Receivable	44,000	65,145	65,145	
Other Receipts	100	16,090	31,442	15,352
Total Revenues	<u>126,501</u>	<u>163,636</u>	<u>380,258</u>	<u>216,622</u>
EXPENDITURES				
Current				
Economic Development	<u>147,501</u>	<u>163,887</u>	<u>370,576</u>	<u>206,689</u>
Total Expenditures	<u>147,501</u>	<u>163,887</u>	<u>370,576</u>	<u>206,689</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(21,000)</u>	<u>(251)</u>	<u>9,682</u>	<u>9,933</u>
OTHER FINANCING SOURCES				
Sale of Capital Asset			5,525	5,525
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>26,525</u>	<u>5,525</u>
NET CHANGE IN FUND BALANCES		20,749	36,207	15,458
FUND BALANCE, JANUARY 1	<u>1,895,302</u>	<u>1,895,302</u>	<u>1,895,302</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 1,895,302</u>	<u>\$ 1,916,051</u>	<u>\$ 1,931,509</u>	<u>\$ 15,458</u>

See Notes to the Required Supplementary Information

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

	<u>Fiscal Year Ended December 31</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
GERF	2015	\$ 72,936	\$ 72,936	\$	\$ 962,478	7.58 %
PEPFF	2015	\$ 47,059	\$ 47,059	\$	\$ 290,493	16.20 %

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

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

	<u>Fiscal Year Ended June 30</u>	<u>City's Proportion of the Net Pension Liability</u>	<u>City's Proportionate Share of the Net Pension Liability</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
GERF	2015	0.0163 %	\$ 844,751	\$ 955,309	88.43 %	78.19 %
PEPFF	2015	0.0320 %	\$ 363,595	\$ 287,601	126.42 %	86.61 %

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

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

**CITY OF PERHAM, MINNESOTA
SCHEDULE OF NET PENSION LIABILITY AND RELATED RATIOS – PERHAM FIREFIGHTERS RELIEF
ASSOCIATION
LAST 10 YEARS**

Fiscal Year	<u>2015</u>
Total Pension Liability	
Service Cost	\$ 25,661
Interest Cost	29,202
Benefit Payments	<u>(17,800)</u>
Net Change in Total Pension Liability	37,063
Total Pension Liability - Beginning	<u>539,465</u>
Total Pension Liability - Ending	<u>\$ 576,528</u>
Plan Fiduciary Net Position	
Contributions - State and Local	54,330
Net Investment Income	23,603
Benefit Payments	(17,800)
Pension Plan Administrative Expense	<u>(4,187)</u>
Net Change in Plan Fiduciary Net Position	55,946
Plan Fiduciary Net Position - Beginning	<u>\$ 711,106</u>
Plan Fiduciary Net Position - Ending	<u>\$ 767,052</u>
Net Pension Liability - Ending	\$ (190,524)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	133.05%
Covered Payroll *	\$

Notes:

This schedule is built prospectively until it contains ten years of data.

* Because all active plan members are volunteers, there is no actual payroll.

**CITY OF PERHAM, MINNESOTA
SCHEDULE OF EMPLOYER CONTRIBUTIONS – PERHAM FIREFIGHTERS RELIEF ASSOCIATION
LAST 10 YEARS**

<u>Fiscal Year Ending December 31,</u>	<u>Statutorily Determined Contribution</u>	<u>Actual Employer Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll*</u>
2005	\$ 32,775	\$ 32,775	\$	
2006	35,462	35,462		
2007	31,019	31,019		
2008	27,230	27,230		
2009	24,053	24,053		
2010	53,693	53,693		
2011	58,521	58,521		
2012	50,373	50,373		
2013	58,168	58,168		
2014	54,330	54,330		

* Because all active plan members are volunteers, there is no actual payroll.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2014
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
	Closed
Remaining amortization period:	
Normal cost	20 Years
Prior service cost	10 Years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	N/A
Includes inflation	N/A
Cost-of-living adjustments	N/A

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

NOTE 1. LEGAL COMPLIANCE-BUDGETS

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

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

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

Appropriations are authorized by the city council at the function and activity level within an individual fund, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. The city 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, 2015, expenditures exceeded appropriations in the general fund and the economic development revolving loan fund by \$43,881 and \$206,689 respectively. The over expenditures were covered by greater than expected revenues in the economic development revolving loan fund.

NOTE 3. DEFINED BENEFIT PLANS

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

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

Exhibit B-1

	Special Revenue Funds <u>Exhibit C-1</u>	Debt Service Funds <u>Exhibit C-3</u>	Capital Projects Funds <u>Exhibit C-5</u>	Permanent Fund	Total Nonmajor Governmental Funds <u>Exhibit A-3</u>
ASSETS					
Cash and Investments	\$ 696,526	\$ 1,493,789		\$ 54,140	\$ 2,244,455
Accounts Receivable	8,133				8,133
Tax Receivable - Current	1,349	2,055			3,404
Tax Receivable - Delinquent	9,759	2,047			11,806
Special Assessments Receivable					
Delinquent		4,574			4,574
Noncurrent		2,401,443			2,401,443
	<u>715,767</u>	<u>3,903,908</u>		<u>54,140</u>	<u>4,673,815</u>
TOTAL ASSETS	\$ 715,767	\$ 3,903,908		\$ 54,140	\$ 4,673,815
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 45,299		\$ 6,623		\$ 51,922
Accrued Payroll	3,373				3,373
Due to Other Funds	82,230		7,199		89,429
Total Liabilities	<u>130,902</u>		<u>13,822</u>		<u>144,724</u>
Deferred Inflows of Resources					
Unavailable Revenue	9,759	2,408,064			2,417,823
Total Deferred Inflows of Resources	<u>9,759</u>	<u>2,408,064</u>			<u>2,417,823</u>
Fund Balance					
Nonspendable - Endowment				50,000	50,000
Restricted for:					
TIF District	372,993				372,993
Marketing	30,194				30,194
Development	20,751				20,751
Debt Service		1,495,844			1,495,844
Committed for:					
Library	75,073				75,073
Fire and Rescue	3,031				3,031
Storm Sewer	73,064				73,064
Assigned					
Park				4,140	4,140
Unassigned			(13,822)		(13,822)
Total Fund Balance	<u>575,106</u>	<u>1,495,844</u>	<u>(13,822)</u>	<u>54,140</u>	<u>2,111,268</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 715,767	\$ 3,903,908		\$ 54,140	\$ 4,673,815

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

Exhibit B-2

	Special Revenue Funds Exhibit C-2	Debt Service Funds Exhibit C-4	Capital Projects Funds Exhibit C-6	Permanent Fund	Total Nonmajor Governmental Funds Exhibit A-5
REVENUES					
Property Taxes	\$ 715,866	\$ 357,989		\$	\$ 1,073,855
Hotel/Motel Tax	50,598				50,598
Special Assessments		403,965			403,965
Intergovernmental - Federal	2,450	14,182			16,632
Intergovernmental - State	72,995				72,995
Intergovernmental - Local	135,215				135,215
Charges for Services	103,555				103,555
Miscellaneous					
Interest on Investments	4,333	10,217		3,502	18,052
Rent		67,730			67,730
Contributions	22,228				22,228
Reimbursements	1,090				1,090
Other Receipts	11,011				11,011
Total Revenues	<u>1,119,341</u>	<u>854,083</u>		<u>3,502</u>	<u>1,976,926</u>
EXPENDITURES					
Current					
Public Safety	258,829				258,829
Public Works	9,618				9,618
Culture and Recreation	180,072			3,600	183,672
Economic Development	279,147				279,147
Debt					
Principal		964,400			964,400
Interest	4,061	227,677			231,738
Fees		2,945			2,945
Capital Outlay					
Public Safety	4,150				4,150
Public Works	50,000		128,595		178,595
Total Expenditures	<u>785,877</u>	<u>1,195,022</u>	<u>128,595</u>	<u>3,600</u>	<u>2,113,094</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>333,464</u>	<u>(340,939)</u>	<u>(128,595)</u>	<u>(98)</u>	<u>(136,168)</u>
OTHER FINANCING SOURCES (USES)					
Debt Issued			116,419		116,419
Transfers In		331,035			331,035
Transfers Out	(325,552)	(669)	(27,247)		(353,468)
Payment Refunding Bond		(985,000)			(985,000)
Total Other Financing Sources (Uses)	<u>(325,552)</u>	<u>(654,634)</u>	<u>89,172</u>		<u>(891,014)</u>
NET CHANGE IN FUND BALANCES	<u>7,912</u>	<u>(995,573)</u>	<u>(39,423)</u>	<u>(98)</u>	<u>(1,027,182)</u>
FUND BALANCE, JANUARY 1	<u>567,194</u>	<u>2,491,417</u>	<u>25,601</u>	<u>54,238</u>	<u>3,138,450</u>
FUND BALANCE, DECEMBER 31	<u>\$ 575,106</u>	<u>\$ 1,495,844</u>	<u>\$ (13,822)</u>	<u>\$ 54,140</u>	<u>\$ 2,111,268</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 DECEMBER 31, 2015**

Exhibit C-1

	<u>Library</u>	<u>Fire and Rescue</u>	<u>CDBG</u>	<u>TIF Districts</u>	<u>Storm Sewer</u>	<u>Lodging Tax</u>	<u>Total Nonmajor Special Revenue Funds Exhibit B-1</u>
ASSETS							
Cash and Investments	\$ 79,771	\$ 89,220	\$ 20,751	\$ 397,687	\$ 70,531	\$ 38,566	\$ 696,526
Accounts Receivable		4,400			3,733		8,133
Tax Receivable - Current	757	592					1,349
Tax Receivable - Delinquent	769	602		8,388			9,759
TOTAL ASSETS	\$ 81,297	\$ 94,814	\$ 20,751	\$ 406,075	\$ 74,264	\$ 38,566	\$ 715,767
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities							
Accounts Payable	\$ 2,512	\$ 8,521	\$	\$ 24,694	\$ 1,200	\$ 8,372	\$ 45,299
Accrued Payroll	2,943	430					3,373
Due to Other Funds		82,230					82,230
Total Liabilities	5,455	91,181		24,694	1,200	8,372	130,902
Deferred Inflows of Resources							
Unavailable Revenue	769	602		8,388			9,759
Total Deferred Inflows of Resources	769	602		8,388			9,759
Fund Balance							
Restricted for:							
TIF District				372,993			372,993
Marketing						30,194	30,194
Development			20,751				20,751
Committed for:							
Library	75,073						75,073
Fire and Rescue		3,031					3,031
Storm Sewer					73,064		73,064
Total Fund Balance	75,073	3,031	20,751	372,993	73,064	30,194	575,106
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 81,297	\$ 94,814	\$ 20,751	\$ 406,075	\$ 74,264	\$ 38,566	\$ 715,767

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED DECEMBER 31, 2015**

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	\$ 122,957	\$ 96,234	\$	\$ 496,675	\$	\$	\$ 715,866
Hotel/Motel Tax						50,598	50,598
Intergovernmental - Federal		2,450					2,450
Intergovernmental - State							
Fire Aid		41,344					41,344
PERA	309						309
Other State Aid		31,342					31,342
Intergovernmental - Local							
Other Local Government	38,577						38,577
Township		96,638					96,638
Charges for Services	6,218	54,811			42,526		103,555
Miscellaneous							
Interest on Investments	539	653		2,528	463	150	4,333
Contributions	6,906		15,322				22,228
Reimbursements	590			500			1,090
Other Receipts	1,525	9,416			70		11,011
Total Revenues	<u>177,621</u>	<u>332,888</u>	<u>15,322</u>	<u>499,703</u>	<u>43,059</u>	<u>50,748</u>	<u>1,119,341</u>
EXPENDITURES							
Current							
Public Safety		258,829					258,829
Public Works					9,618		9,618
Culture and Recreation	180,072						180,072
Economic Development			12,916	222,951		43,280	279,147
Debt Service							
Interest		4,061					4,061
Capital Outlay							
Public Safety		4,150					4,150
Public Works					50,000		50,000
Total Expenditures	<u>180,072</u>	<u>267,040</u>	<u>12,916</u>	<u>222,951</u>	<u>59,618</u>	<u>43,280</u>	<u>785,877</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,451)</u>	<u>65,848</u>	<u>2,406</u>	<u>276,752</u>	<u>(16,559)</u>	<u>7,468</u>	<u>333,464</u>
OTHER FINANCING USES							
Transfers Out				(325,552)			(325,552)
Total Other Financing Uses				<u>(325,552)</u>			<u>(325,552)</u>
NET CHANGE IN FUND BALANCES	<u>(2,451)</u>	<u>65,848</u>	<u>2,406</u>	<u>(48,800)</u>	<u>(16,559)</u>	<u>7,468</u>	<u>7,912</u>
FUND BALANCE, JANUARY 1	<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>
FUND BALANCE, DECEMBER 31	<u>\$ 75,073</u>	<u>\$ 3,031</u>	<u>\$ 20,751</u>	<u>\$ 372,993</u>	<u>\$ 73,064</u>	<u>\$ 30,194</u>	<u>\$ 575,106</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 DECEMBER 31, 2015**

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>	<u>Golf Course</u>
ASSETS						
Cash and Investments	\$ 103,266	\$ 408,737	\$ 109,757	\$ 1,618	\$ 215,713	\$ 66,959
Taxes Receivable - Current		342	160	188		
Taxes Receivable - Delinquent		348	162	151		
Special Assessments Receivable						
Delinquent	680	1,116				
Noncurrent	234,506	217,361	555,781		153,511	
TOTAL ASSETS	<u>\$ 338,452</u>	<u>\$ 627,904</u>	<u>\$ 665,860</u>	<u>\$ 1,957</u>	<u>\$ 369,224</u>	<u>\$ 66,959</u>
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	\$ 235,186	\$ 218,825	\$ 555,943	\$ 151	\$ 153,511	\$
Total Deferred Inflows of Resources	<u>235,186</u>	<u>218,825</u>	<u>555,943</u>	<u>151</u>	<u>153,511</u>	<u>\$</u>
FUND BALANCE						
Restricted for Debt Service	103,266	409,079	109,917	1,806	215,713	66,959
Total Fund Balance	<u>103,266</u>	<u>409,079</u>	<u>109,917</u>	<u>1,806</u>	<u>215,713</u>	<u>66,959</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 338,452</u>	<u>\$ 627,904</u>	<u>\$ 665,860</u>	<u>\$ 1,957</u>	<u>\$ 369,224</u>	<u>\$ 66,959</u>

cont.

**CITY OF PERHAM, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 DECEMBER 31, 2015**

Exhibit C-3

	<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>Victory Estates G.O. Improvement Bonds</u>	<u>Total Nonmajor Debt Service Funds Exhibit B-1</u>
ASSETS						
Cash and Investments	\$ 42,295	\$ 205,490	\$ 201,033	\$ 138,921		\$ 1,493,789
Taxes Receivable - Current		1,028	86	251		2,055
Taxes Receivable - Delinquent		1,044	87	255		2,047
Special Assessments Receivable						
Delinquent	767	1,425		586		4,574
Noncurrent	318,799	313,856	155,707	333,772	118,150	2,401,443
TOTAL ASSETS	<u>\$ 361,861</u>	<u>\$ 522,843</u>	<u>\$ 356,913</u>	<u>\$ 473,785</u>	<u>\$ 118,150</u>	<u>\$ 3,903,908</u>
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	\$ 319,566	\$ 316,325	\$ 155,794	\$ 334,613	\$ 118,150	\$ 2,408,064
Total Deferred Inflows of Resources	<u>319,566</u>	<u>316,325</u>	<u>155,794</u>	<u>334,613</u>	<u>118,150</u>	<u>2,408,064</u>
FUND BALANCE						
Restricted for Debt Service	42,295	206,518	201,119	139,172		1,495,844
Total Fund Balance	<u>42,295</u>	<u>206,518</u>	<u>201,119</u>	<u>139,172</u>		<u>1,495,844</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 361,861</u>	<u>\$ 522,843</u>	<u>\$ 356,913</u>	<u>\$ 473,785</u>	<u>\$ 118,150</u>	<u>\$ 3,903,908</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 YEAR ENDED DECEMBER 31, 2015**

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>Golf Course</u>
REVENUES						
Property Taxes	\$ 106	\$ 63,197	\$ 28,014	\$ 26,134	\$	\$
Special Assessments	76,074	52,647	70,458		52,475	
Intergovernmental						
Federal						
Miscellaneous						
Interest on Investments	1,272	2,532	634	62	795	413
Rent						67,730
Total Revenues	<u>77,452</u>	<u>118,376</u>	<u>99,106</u>	<u>26,196</u>	<u>53,270</u>	<u>68,143</u>
EXPENDITURES						
Principal	115,000	115,000	92,000		12,400	60,000
Interest	15,183	35,854	29,037	312	11,143	8,060
Fees	225	225	450			450
Total Expenditures	<u>130,408</u>	<u>151,079</u>	<u>121,487</u>	<u>312</u>	<u>23,543</u>	<u>68,510</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(52,956)</u>	<u>(32,703)</u>	<u>(22,381)</u>	<u>25,884</u>	<u>29,727</u>	<u>(367)</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	50,000	33,221	24,662		45,000	
Transfers Out						
Payment Refunding Bond						
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>33,221</u>	<u>24,662</u>		<u>45,000</u>	
NET CHANGE IN FUND BALANCES	(2,956)	518	2,281	25,884	74,727	(367)
FUND BALANCE JANUARY 1	<u>106,222</u>	<u>408,561</u>	<u>107,636</u>	<u>(24,078)</u>	<u>140,986</u>	<u>67,326</u>
FUND BALANCE DECEMBER 31	<u>\$ 103,266</u>	<u>\$ 409,079</u>	<u>\$ 109,917</u>	<u>\$ 1,806</u>	<u>\$ 215,713</u>	<u>\$ 66,959</u>

cont.

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 YEAR ENDED DECEMBER 31, 2015**

Exhibit C-4

	<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>2014 G.O. Refunding Bonds</u>	<u>Total Nonmajor Debt Service Funds Exhibit B-2</u>
REVENUES						
Property Taxes	\$ 247	\$ 181,021	\$ 15,036	\$ 44,234		\$ 357,989
Special Assessments	22,442	64,615	22,999	42,255		403,965
Intergovernmental						
Federal			14,182			14,182
Miscellaneous						
Interest on Investments	564	2,130	1,279	388	148	10,217
Rent						67,730
Total Revenues	<u>23,253</u>	<u>247,766</u>	<u>53,496</u>	<u>86,877</u>	<u>148</u>	<u>854,083</u>
EXPENDITURES						
Principal	85,000	395,000	35,000	55,000		964,400
Interest	2,060	37,385	43,710	35,220	9,713	227,677
Fees	225	495	450	425		2,945
Total Expenditures	<u>87,285</u>	<u>432,880</u>	<u>79,160</u>	<u>90,645</u>	<u>9,713</u>	<u>1,195,022</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(64,032)</u>	<u>(185,114)</u>	<u>(25,664)</u>	<u>(3,768)</u>	<u>(9,565)</u>	<u>(340,939)</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	20,000	93,000	17,400	47,752		331,035
Transfers Out					(669)	(669)
Payment Refunding Bond					(985,000)	(985,000)
Total Other Financing Sources (Uses)	<u>20,000</u>	<u>93,000</u>	<u>17,400</u>	<u>47,752</u>	<u>(985,669)</u>	<u>(654,634)</u>
NET CHANGE IN FUND BALANCES	(44,032)	(92,114)	(8,264)	43,984	(995,234)	(995,573)
FUND BALANCE JANUARY 1	<u>86,327</u>	<u>298,632</u>	<u>209,383</u>	<u>95,188</u>	<u>995,234</u>	<u>2,491,417</u>
FUND BALANCE DECEMBER 31	<u>\$ 42,295</u>	<u>\$ 206,518</u>	<u>\$ 201,119</u>	<u>\$ 139,172</u>	<u>\$</u>	<u>\$ 1,495,844</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING BLANCE SHEET
 NONMAJOR CAPITAL PROJECT FUNDS
 DECEMBER 31, 2015**

Exhibit C-5

	<u>Interchange Project</u>	<u>Victory Estates</u>	<u>Total Nonmajor Capital Projects Funds Exhibit B-1</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 1,646	\$ 6,623	\$ 6,623
Due to Other Funds	1,646	5,553	7,199
Total Liabilities	<u>1,646</u>	<u>12,176</u>	<u>13,822</u>
FUND BALANCE			
Unassigned	(1,646)	(12,176)	(13,822)
Total Fund Balance	<u>(1,646)</u>	<u>(12,176)</u>	<u>(13,822)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$</u>	<u>\$</u>	<u>\$</u>

**CITY OF PERHAM, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECT FUNDS
 YEAR ENDED DECEMBER 31, 2015**

Exhibit C-6

	<u>2013 Improvement Project</u>	<u>Interchange Project</u>	<u>Victory Estates</u>	<u>Total Nonmajor Capital Projects Funds Exhibit B-2</u>
EXPENDITURES				
Capital Outlay				
Public Works	\$ _____	\$ _____	\$ 128,595	\$ 128,595
Total Expenditures	<u>_____</u>	<u>_____</u>	<u>128,595</u>	<u>128,595</u>
OTHER FINANCING SOURCES (USES)				
Debt Issued			116,419	116,419
Transfers Out	<u>(27,247)</u>	<u>_____</u>	<u>_____</u>	<u>(27,247)</u>
Total Other Financing Sources (Uses)	<u>(27,247)</u>	<u>_____</u>	<u>116,419</u>	<u>89,172</u>
NET CHANGE IN FUND BALANCES	(27,247)		(12,176)	(39,423)
FUND BALANCE, JANUARY 1	<u>27,247</u>	<u>(1,646)</u>	<u>_____</u>	<u>25,601</u>
FUND BALANCE, DECEMBER 31	<u>\$ _____</u>	<u>\$ (1,646)</u>	<u>\$ (12,176)</u>	<u>\$ (13,822)</u>

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

	<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>Capital Contribution</u>	<u>Sale of Capital Assets</u>	<u>Prior Period Adjustment</u>	<u>Ending Balance</u>
Primary Government Governmental Funds											
General	\$ 761,902	\$ 1,422,617	\$ 1,598,098	\$ 263,116	\$	\$	\$	\$	\$ 7,500	\$	\$ 857,037
Special Revenue											
Library	77,524	177,621	180,072								75,073
Fire and Rescue	(62,817)	332,888	267,040								3,031
Economic Development											
Revolving Loan	1,895,302	380,258	370,576	21,000					5,525		1,931,509
CDBG	18,345	15,322	12,916								20,751
TIF Districts	421,793	499,703	222,951		325,552						372,993
Storm Sewer	89,623	43,059	59,618								73,064
Lodging Tax	22,726	50,748	43,280								30,194
Debt Service											
1996 IRP Loan Program	2,127,967	62,452	83,001		21,000						2,086,418
2007 G.O. Improvement Bonds	408,561	118,376	151,079	33,221							409,079
1999 EDA Safety Building Bonds	(24,078)	26,196	312								1,806
1999 Industrial Park Improvement	140,986	53,270	23,543	45,000							215,713
Golf Course	67,326	68,143	68,510								66,959
2005 G.O. Improvement Bonds	106,222	77,452	130,408	50,000							103,266
2006 G.O. Bonds	86,327	23,253	87,285	20,000							42,295
2009 G.O. Improvement Bonds	154,307	97,368	225,594	100,000							126,081
2009B G.O. Refunding Bonds	298,632	247,766	432,880	93,000							206,518
2010A G.O. Improvement Bonds	209,383	53,496	79,160	17,400							201,119
2011A G.O. Improvement Bonds	107,636	99,106	121,487	24,662							109,917
2013 G.O. Improvement Bonds	95,188	86,877	90,645	47,752							139,172
2014A Refunding	995,234	148	9,713		669		985,000				
2015 G.O. Improvement Bonds		178,787				21,930					200,717
Capital Projects											
Permanent Improvement	955,355	2,084,094	3,347,862	735,953	34,866	824,697			5,000		1,222,371
Interchange Project	(1,646)										(1,646)
2013 Improvement Project	27,247				27,247						
2015 Improvement Project	(4,898)	1,249,767	4,578,364			3,120,102					(213,393)
Victory Estates			128,595			116,419					(12,176)
Permanent Fund	54,238	3,502	3,600								54,140
Total Governmental Funds	9,028,385	7,452,269	12,316,589	1,451,104	409,334	4,083,148	985,000		18,025		8,322,008

cont.

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

	<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>Capital Contribution</u>	<u>Sale of Capital Assets</u>	<u>Prior Period Adjustment</u>	<u>Ending Balance</u>
Proprietary Funds											
Municipal Liquor	1,688,793	3,244,488	2,845,162		303,250					(103,621)	1,681,248
Gas	2,515,807	7,279,243	6,845,505		362,651					(111,592)	2,475,302
Sewer and Wastewater	8,207,051	1,177,580	1,232,582		53,181			537,055		(63,767)	8,572,156
Water	4,792,656	794,827	579,238		322,688			577,695		(63,767)	5,199,485
Recycling	116,331	76,056	75,018							(1,994)	115,375
Total Proprietary Funds	17,320,638	12,572,194	11,577,505		1,041,770			1,114,750		(344,741)	18,043,566
Total Primary Government	\$ 26,349,023	\$ 20,024,463	\$ 23,894,094	\$ 1,451,104	\$ 1,451,104	\$ 4,083,148	\$ 985,000	\$ 1,114,750	\$ 18,025	\$ (344,741)	\$ 26,365,574
Component Units											
Perham Area Community Center	\$ 1,942,522	\$ 958,196	\$ 910,686	\$	\$	\$	\$	\$	\$	\$	1,990,032
Perham Golf Course	(15,374)	1,002,508	646,726								340,408
Total Component Units	\$ 1,927,148	\$ 1,960,704	\$ 1,557,412	\$	\$	\$	\$	\$	\$	\$	\$ 2,330,440

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

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2014	Issued 2015	Retired 2015	Balance 12/31/2015	Principal 2016	Interest 2016
BOND INDEBTEDNESS										
General Obligation Bonds										
G.O. Improvement Bonds of 1999	4.375	12/21/99	1-1-2016/29	\$ 382,000	\$ 254,700	\$	\$ 12,400	\$ 242,300	\$ 12,900	\$ 10,601
G.O. Improvement Bonds of 2007A	4.1 - 4.45	08/01/07		1,695,000	1,100,000		1,100,000			
G.O. Improvement Bonds of 2009A	4.0 - 5.5	09/01/09	2-1-2016/25	1,735,000	1,130,000		175,000	955,000	175,000	43,363
G.O. Improvement Bonds of 2010A	4.0 - 5.5	07/01/10	2-1-2016/26	1,030,000	920,000		35,000	885,000	35,000	42,538
G.O. Refunding & Crossover, 2009B	3.0 - 3.2	11/01/09	2-1-2016/19	505,000	290,000		55,000	235,000	55,000	7,200
G.O. Refunding & Crossover, 2009B	3.0 - 3.2	11/01/09	2-1-2016/19	3,045,000	1,490,000		395,000	1,095,000	430,000	25,860
G.O. Refunding & Crossover, 2012	0.65 - 2.45	03/14/12	2-1-2016/26	1,270,000	1,155,000		115,000	1,040,000	115,000	14,521
G.O. Refunding & Crossover, 2012	0.65 - 2.45	03/14/12	2-1-2016/26	660,000	660,000		85,000	575,000	80,000	2,099
G.O. Refunding & Crossover, 2012	0.65 - 2.45	03/14/12	2-1-2016/26	190,000	190,000		20,000	170,000	20,000	6,899
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2016/26	337,745	284,000		22,000	262,000	22,000	3,668
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2016/26	148,475	125,000		10,000	115,000	10,000	1,600
G.O. Improvement Bonds of 2011A	2.0-3.4	09/01/11	2-1-2016/27	990,000	880,000		60,000	820,000	60,000	22,123
G.O. Improvement Bonds 2013	3.0-3.8	10/02/13	2-1-2016/29	1,115,000	1,115,000		55,000	1,060,000	70,000	33,345
G.O. Bonds 2014 Crossover Refunded 2007A	3.0-4.0	09/10/14	2-1-2016/23	760,000	760,000			760,000	100,000	23,300
G.O. Improvement Bonds 2015A	2.25-3.1	07/21/15	2-1-2017/31	820,000		820,000		820,000		21,332
G.O. Improvement Bonds 2015A	2.25-3.1	07/21/15	2-1-2017/31	1,535,000		1,535,000		1,535,000		39,657
G.O. Improvement Bonds 2015A	2.25-3.1	07/21/15	2-1-2017/31	1,580,000		1,580,000		1,580,000		36,830
Total					<u>10,353,700</u>	<u>3,935,000</u>	<u>2,139,400</u>	<u>12,149,300</u>	<u>1,184,900</u>	<u>334,936</u>
General Obligation Revenue Bonds										
G.O. Utility Revenue Bond, 2008A	4.0 - 4.7	11/01/08	2-1-2016/24	860,000	630,000		55,000	575,000	575,000	24,695
G.O. Revenue Bonds - PFA	2.8	11/19/99	8-20-2016/19	607,436	190,000		36,000	154,000	37,000	4,296
G.O. Bonds (MPFA)	1.0	11/16/12	8-20-2016/42	3,014,667	2,887,034		90,034	2,797,000	91,000	27,970
G.O. Bonds (MPFA)	2.7	01/28/09	8-20-2016/28	2,422,209	1,883,000		112,000	1,771,000	115,000	48,579
G.O. Improvement Bonds 2012B	1.9 - 2.4	03/28/12	11-1-2016/20	835,000	510,000		125,000	385,000	100,000	8,065
G.O. Bonds 2014 Crossover Refunded 2008A	3.0-4.0	09/10/14	2-1-2017/24	510,000	510,000			510,000		17,350
G.O. Bonds (MPFA) Clean Water	1.0	09/23/15	8-20-2016/35	895,817		895,817		895,817	47,522	8,215
G.O. Bonds (MPFA) Drinking Water	1.0	09/23/15	8-20-2016/35	817,920		817,920		817,920	45,233	7,510
Total					<u>6,610,034</u>	<u>1,713,737</u>	<u>418,034</u>	<u>7,905,737</u>	<u>1,010,755</u>	<u>146,680</u>
Revenue Bonds										
Gas Utility Refunding Bond 2009C	3.3 - 4.7	11/17/09	6-1-2016/29	4,060,000	3,305,000		165,000	3,140,000	170,000	131,685
Total					<u>3,305,000</u>		<u>165,000</u>	<u>3,140,000</u>	<u>170,000</u>	<u>131,685</u>
Total Bonds					<u>20,268,734</u>	<u>5,648,737</u>	<u>2,722,434</u>	<u>23,195,037</u>	<u>2,365,655</u>	<u>613,301</u>
Loans										
U.S. Department of Agriculture	1.0	11/28/94	11-28-2016/24	1,000,000	386,922		37,255	349,667	37,601	3,522
U.S. Department of Agriculture	1.0	04/24/98	4-24-2016/28	775,000	414,361		27,733	386,628	27,989	3,888
United Community Bank - Golf Course	5.0	11/15/04	10-15-2016/21	300,000		180,000	20,250	159,750	20,000	5,615
Contract for Deed	1.3	07/01/11	7-1-2016/18	312,000	157,994		38,730	119,264	39,240	1,510
Total					<u>959,277</u>	<u>180,000</u>	<u>123,968</u>	<u>1,015,309</u>	<u>124,830</u>	<u>14,535</u>
Other Long-term Debt										
Lease-Purchase Agreement	2.75	11/01/11	4-1-2016/17	777,138	422,632		137,035	285,597	140,842	6,410
Total Primary Government Indebtedness					<u>21,650,643</u>	<u>5,828,737</u>	<u>2,983,437</u>	<u>24,495,943</u>	<u>2,631,327</u>	<u>634,246</u>
Loans Payable										
Golf Course		04/22/15	10-01-2016/19	95,040		95,040	16,341	78,699	18,182	3,759
VGM Financial Services		04/28/12	11-15-2016/18	93,136	68,524		19,578	48,946	18,624	
Total Component Unit Indebtedness					<u>68,524</u>	<u>95,040</u>	<u>35,919</u>	<u>127,645</u>	<u>36,806</u>	<u>3,759</u>
Total Indebtedness					<u>\$ 21,719,167</u>	<u>\$ 5,923,777</u>	<u>\$ 3,019,356</u>	<u>\$ 24,623,588</u>	<u>\$ 2,668,133</u>	<u>\$ 638,005</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, 2015, and the related notes to the financial statements, and have issued our report thereon dated June 22, 2016. 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 Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65 contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

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

Purpose of the Report

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

A handwritten signature in black ink that reads "Brady Martz".

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

June 22, 2016

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor
and Members of the City Council
City of 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, 2015, which collectively comprise the City of Perham, Minnesota's basic financial statements and have issued our report thereon dated June 22, 2016. 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

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 and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of 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 22, 2016



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the Honorable Mayor
and Members of the City Council
City of 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 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the City of 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Purpose of the Report

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



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

June 22, 2016

**CITY OF PERHAM, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed- Through to Subrecipients	Total Federal Expenditures
<u>Environmental Protection Agency</u>				
Passed-Through Minnesota Public Facilities Authority:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	MPFA-14-0002-R-FY15	\$	900,106
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-15-0023-R-FY15		<u>912,049</u>
Total Environmental Protection Agency				<u>1,812,155</u>
<u>U.S. Department of Transportation</u>				
Passed-Through Ottertail County:				
Highway Planning and Construction	20.205			<u>204,264</u>
Total U.S. Department of Transportation				<u>204,264</u>
<u>U.S. Department of Housing and Urban Development</u>				
Passed-Through Minnesota Department of Employment and Economic Development:				
Community Development Block Grant	14.228	CDAP-13-0003-H-FY 14 2	<u>200,000</u>	<u>200,000</u>
Total U.S. Department of Housing and Urban Development			<u>200,000</u>	<u>200,000</u>
<u>U.S. Department of Agriculture</u>				
Passed-Through Minnesota DNR Forestry:				
Cooperative Forestry Assistance	10.664			<u>2,450</u>
Total U.S. Department of Agriculture				<u>2,450</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>200,000</u>	\$ <u>2,218,869</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				\$ 2,218,869
Build America Bond - Interest Refunded				30,451
Less: Loan Proceeds				<u>(1,812,155)</u>
				<u>\$ 437,165</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, 2015**

NOTE 1. BASIS OF PRESENTATION

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3. LOANS OUTSTANDING

The City had the following loan balance outstanding at December 31, 2015. The balance of loans issued in prior year was \$3,668,142. During the year, loans totaling \$1,713,737 were issued; the proceeds were reported on the schedule of expenditures of federal awards.

<u>Program Title</u>	<u>Issue Amount</u>	<u>CFDA</u>	<u>Amount Outstanding</u>
Capitalization Grants for Clean Water State Revolving Funds	\$ 337,745	66.458	\$ 262,000
Capitalization Grants for Drinking Water State Revolving Funds	148,475	66.468	115,000
Capitalization Grants for Clean Water State Revolving Funds	3,014,667	66.458	2,797,000
Capitalization Grants for Clean Water State Revolving Funds	895,817	66.458	895,817
Capitalization Grants for Drinking Water State Revolving Funds	817,920	66.468	817,920

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

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
	2015 G.O. Improvement Bonds Fund	Unmodified
	2015 Improvement Project 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 federal programs:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes no

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

66.468 Capitalization Grant for Drinking Water State Revolving Loan

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

**CITY OF PERHAM, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
DECEMBER 31, 2015**

Section II-Financial Statement Findings

2015-001 FINDING

Criteria

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare the full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. 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.

Repeat Finding

Yes. Prior audit finding 2014-001

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

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

Section III-Federal Award Findings and Questioned Costs

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

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

2014-001 FINDING

Criteria

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare the full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. 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

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

**CITY OF PERHAM, MINNESOTA
CORRECTIVE ACTION PLAN
DECEMBER 31, 2015**

2015-001 FINDING

Contact Person – Patti Stokke, Finance Officer

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

Completion Date – Ongoing