

**CITY OF PERHAM  
PERHAM, MINNESOTA**

AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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CITY OF PERHAM, MINNESOTA  
CITY OFFICIALS  
YEAR ENDED DECEMBER 31, 2016

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Mayor	Timothy Meehl
Councilman	James Johnson
Councilman	Fred Lehmkuhl
Councilman	Harriet Mattfeld
Councilman	Eric Spencer
City Manager	Jonathan Smith
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, 2016, 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.

Except for the matter described in the “Basis for Disclaimer of Opinion on the Discretely Presented Component Units” paragraph, 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, 2016, and the respective changes in financial position and, where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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 combining nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2017, 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**

May 24, 2017

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

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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, 2016. Please read it in conjunction with the City's financial statements, which immediately follow this section. Certain reclassifications have been made to the 2015 financial statements in order to conform with the 2016 presentation.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$45,239,192 (net position). Of this amount, \$6,792,581 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 \$871,688, or 51% of the total general fund expenditures, an increase of \$14,651 over the year ended 2015.

**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 450<sup>th</sup> 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

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

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well as on balances of spendable resources available at the end of the fiscal year. Such information may be used in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 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, and Permanent Improvement Fund, all of which are considered major funds. Data from the other 22 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

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

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

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

**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 \$45,239,192 at the close of the most recent fiscal year.

**Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 13,415,033	\$ 13,286,129	\$ 6,420,412	\$ 6,497,418	\$ 19,835,445	\$ 19,783,547
Capital Assets	<u>26,662,218</u>	<u>25,439,441</u>	<u>24,376,813</u>	<u>24,431,530</u>	<u>51,039,031</u>	<u>49,870,971</u>
Total Assets	<u>40,077,251</u>	<u>38,725,570</u>	<u>30,797,225</u>	<u>30,928,948</u>	<u>70,874,476</u>	<u>69,654,518</u>
Deferred Outflows of Resources	<u>1,169,574</u>	<u>155,895</u>	<u>311,316</u>	<u>66,951</u>	<u>1,480,890</u>	<u>222,846</u>
Long-term Liabilities	13,904,290	14,021,583	10,978,008	11,961,238	24,882,298	25,982,821
Other Liabilities	<u>847,878</u>	<u>689,096</u>	<u>1,066,618</u>	<u>938,244</u>	<u>1,914,496</u>	<u>1,627,340</u>
Total Liabilities	<u>14,752,168</u>	<u>14,710,679</u>	<u>12,044,626</u>	<u>12,899,482</u>	<u>26,796,794</u>	<u>27,610,161</u>
Deferred Inflows of Resources	<u>232,785</u>	<u>98,026</u>	<u>86,595</u>	<u>52,851</u>	<u>319,380</u>	<u>150,877</u>
Net Position						
Net Investment in Capital						
Assets	15,420,550	13,130,842	14,727,171	13,532,311	30,147,721	26,663,153
Restricted	<u>7,546,821</u>	<u>7,546,579</u>	<u>752,069</u>	<u>627,886</u>	<u>8,298,890</u>	<u>8,174,465</u>
Unrestricted	<u>3,294,501</u>	<u>3,395,339</u>	<u>3,498,080</u>	<u>3,883,369</u>	<u>6,792,581</u>	<u>7,278,708</u>
Total Net Position	<u>\$ 26,261,872</u>	<u>\$ 24,072,760</u>	<u>\$ 18,977,320</u>	<u>\$ 18,043,566</u>	<u>\$ 45,239,192</u>	<u>\$ 42,116,326</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, 2016**

**Change in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 449,985	\$ 427,314	\$ 11,782,346	\$ 12,649,101	\$ 12,232,331	\$ 13,076,415
Operating Grants and Contributions	431,785	677,735			431,785	677,735
Capital Grants and Contributions	1,772,453	4,310,409			1,772,453	4,310,409
General Revenues						
Taxes	2,219,150	1,815,028			2,219,150	1,815,028
Unrestricted State Aid	603,831	600,523	1,883	16,833	605,714	617,356
Unrestricted Investment Earnings	164,845	124,216	36,040	37,550	200,885	161,766
Gain on Sale of Capital Assets	81,017	15,738	137,512	12,659	218,529	28,397
Other General Revenue	184,165	269,086			184,165	269,086
<b>Total Revenues</b>	<b>5,907,231</b>	<b>8,240,049</b>	<b>11,957,781</b>	<b>12,716,143</b>	<b>17,865,012</b>	<b>20,956,192</b>
<b>Expenses</b>						
General Government	461,324	426,960			461,324	426,960
Public Safety	1,177,509	949,499			1,177,509	949,499
Public Works	939,695	2,039,208			939,695	2,039,208
Culture and Recreation	719,519	875,464			719,519	875,464
Economic Development	717,617	664,726			717,617	664,726
Airport	114,377	209,074			114,377	209,074
Interest on Long-term Debt	327,891	279,435			327,891	279,435
Municipal Liquor			2,927,738	2,845,162	2,927,738	2,845,162
Gas			5,652,063	6,861,165	5,652,063	6,861,165
Sewer and Wastewater			1,082,120	1,354,671	1,082,120	1,354,671
Water			545,702	585,438	545,702	585,438
Recycling			76,591	75,018	76,591	75,018
<b>Total Expenses</b>	<b>4,457,932</b>	<b>5,444,366</b>	<b>10,284,214</b>	<b>11,721,454</b>	<b>14,742,146</b>	<b>17,165,820</b>
<b>Change in Net Position Before Transfers</b>	<b>1,449,299</b>	<b>2,795,683</b>	<b>1,673,567</b>	<b>994,689</b>	<b>3,122,866</b>	<b>3,790,372</b>
Transfers	739,813	(72,980)	(739,813)	72,980		
<b>Change in Net Position</b>	<b>2,189,112</b>	<b>2,722,703</b>	<b>933,754</b>	<b>1,067,669</b>	<b>3,122,866</b>	<b>3,790,372</b>
Net Position - January 1	24,072,760	21,350,057	18,043,566	16,975,897	42,116,326	38,325,954
Net Position - December 31	\$ 26,261,872	\$ 24,072,760	\$ 18,977,320	\$ 18,043,566	\$ 45,239,192	\$ 42,116,326

**Governmental activities.** Governmental activities increased the City's net position by \$2,189,112. A key element of the increase is as follows:

- Capital Outlays less depreciation and the reduction of debt

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

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**Business-type activities.** Business-type activities increased the City's net position by \$933,754. Key elements of this increase are as follows:

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

**Financial Analysis of the Government's Funds**

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

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

**Major Funds**

	Fund Balance / Net Position		Increase (Decrease)	Percentage Increase (Decrease)
	12/31/2016	12/31/2015		
<b>Governmental Funds</b>				
General Fund	\$ 871,688	\$ 857,037	\$ 14,651	2%
<b>Economic Development</b>				
Revolving Loan	1,953,223	1,931,509	21,714	1%
1996 IRP Loan Program	2,071,378	2,086,418	(15,040)	-1%
2009 G.O. Improvement Bonds	124,537	126,081	(1,544)	-1%
2015 Improvement Bonds	366,468	200,717	165,751	83%
Permanent Improvement	824,660	1,222,371	(397,711)	-33%
<b>Proprietary Funds</b>				
Gas	3,038,409	2,475,302	563,107	23%
Sewer and Wastewater	8,664,200	8,572,156	92,044	1%
Water	5,330,881	5,199,485	131,396	3%
Municipal Liquor	1,825,515	1,681,248	144,267	9%

- The City received insurance dividends during the year.

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

**General Fund Budgetary Highlights**

During the year the City amended the budget to reflect contributions, additional approved expenses and revenues, 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, 2016, amounts to \$51,039,031 (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			
	2016	2015	2016	2015	2016	2015
Land	\$ 534,032	\$ 540,015	\$ 1,524,434	\$ 1,541,067	\$ 2,058,466	\$ 2,081,082
Construction In Process	3,745,610	3,277,504		1,487,553	3,745,610	4,765,057
Buildings	6,000,263	5,370,053	793,835	773,071	6,794,098	6,143,124
Improvements Other Than Buildings	14,101,565	13,952,877	19,532,153	19,791,729	33,633,718	33,744,606
Machinery and Equipment	2,280,748	2,298,992	2,526,391	838,110	4,807,139	3,137,102
Total	<u>\$ 26,662,218</u>	<u>\$ 25,439,441</u>	<u>\$ 24,376,813</u>	<u>\$ 24,431,530</u>	<u>\$ 51,039,031</u>	<u>\$ 49,870,971</u>

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

- Coney street improvement project
- Completion of library mold abatement
- Event Center
- Plow Truck
- Gas line extensions
- TBS station completion

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

**Long-term Liabilities.** At the end of the current fiscal year, the City had \$22,079,881 in bonds and other long-term obligations.

**Outstanding Debt**

	Governmental		Business-type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 9,064,400	\$ 10,164,300	\$ 1,910,000	\$ 1,985,000	\$ 10,974,400	\$ 12,149,300
General Obligation Revenue Bonds	2,111,232	2,098,737	4,989,000	5,807,000	7,100,232	7,905,737
Revenue Bonds			2,970,000	3,140,000	2,970,000	3,140,000
Loans Payable	810,455	896,045	80,039	119,264	890,494	1,015,309
Lease/Purchase Agreement			144,755	285,597	144,755	285,597
Total	<u>\$ 11,986,087</u>	<u>\$ 13,159,082</u>	<u>\$ 10,093,794</u>	<u>\$ 11,336,861</u>	<u>\$ 22,079,881</u>	<u>\$ 24,495,943</u>

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

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

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**Economic Factors**

The City has been experiencing growth in the commercial and industrial sectors creating the need for improvements of 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.

Generally, the economic conditions of the community are stable. The city has experienced major additions in both housing and industry. The 2016 building permits showed significant additions. Residential permits totaled over \$8,553,386 with major developments and housing. Commercial permits totaled over \$14,562,059 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.

**CITY OF PERHAM, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

**Exhibit A-1**

	Primary Government			Component Units (UNAUDITED)	
	Governmental Activities	Business-type Activities	Total	Perham Area Community Center	Perham Golf Course
<b>ASSETS</b>					
Cash and Investments	\$ 6,947,006	\$ 3,958,860	\$ 10,905,866	\$ 606,205	\$ 15,362
Receivables					
Accounts (Net of Allowance)	35,994	979,823	1,015,817	17,816	6,200
Interest Receivable	8,864		8,864		
Current Taxes	8,912		8,912		
Delinquent Taxes	14,131		14,131		
Special Assessments	4,126,608	1,310	4,127,918		
Notes Receivable (Net of Allowance)	2,306,398	175,230	2,481,628		
Internal Balances	(209,177)	209,177			
Due from Other Governments	18,404		18,404		
Inventory		343,943	343,943	3,409	72,000
Restricted Cash:					
Bond Covenants		752,069	752,069		
Deferred Charges				1,896	
Net Pension Asset - VFD	157,893		157,893		
Capital Assets					
Land	534,032	1,524,434	2,058,466	41,130	
Construction In Process	3,745,610		3,745,610		
Buildings	8,151,998	1,002,274	9,154,272	3,026,591	
Improvements Other than Buildings	19,634,175	28,444,887	48,079,062		439,168
Machinery and Equipment	4,128,533	3,514,461	7,642,994	657,835	971,204
Less: Accumulated Depreciation	(9,532,130)	(10,109,243)	(19,641,373)	(2,207,038)	(804,698)
Total Capital Assets, Net of Depreciation	26,662,218	24,376,813	51,039,031	1,518,518	605,674
<b>TOTAL ASSETS</b>	<b>40,077,251</b>	<b>30,797,225</b>	<b>70,874,476</b>	<b>2,147,844</b>	<b>699,236</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Cost Sharing Defined Benefit Pension Plan	1,169,574	311,316	1,480,890		
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,169,574</b>	<b>311,316</b>	<b>1,480,890</b>		
<b>LIABILITIES</b>					
Accounts Payable	683,145	939,627	1,622,772	22,980	427
Accrued Payroll	1,262	595	1,857	23,901	11,373
Payroll Withholding	67,686		67,686		
Revolving Line of Credit					337,529
Consumer Deposits		55,550	55,550		
Unearned Revenue		7,492	7,492	109,241	7,952
Accrued Interest Payable	95,785	63,354	159,139		
Noncurrent Liabilities					
Net Pension Liability	1,756,078	746,995	2,503,073		
Due Within One Year	1,475,661	940,545	2,416,206		58,395
Due in More than One Year	10,672,551	9,290,468	19,963,019		78,418
<b>TOTAL LIABILITIES</b>	<b>14,752,168</b>	<b>12,044,626</b>	<b>26,796,794</b>	<b>156,122</b>	<b>494,094</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Cost Sharing Defined Benefit Pension Plan	232,785	86,595	319,380		
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>232,785</b>	<b>86,595</b>	<b>319,380</b>		
<b>NET POSITION</b>					
Net Investment in Capital Assets	15,420,550	14,727,171	30,147,721	1,518,518	468,861
Restricted for:					
Park	50,000		50,000		
TIF Districts	529,053		529,053		
Development	1,352		1,352		
Marketing	26,875		26,875		
Debt Service	6,939,541		6,939,541		
Bond Covenants		752,069	752,069		
Unrestricted	3,294,501	3,498,080	6,792,581	473,204	(263,719)
<b>TOTAL NET POSITION</b>	<b>\$ 26,261,872</b>	<b>\$ 18,977,320</b>	<b>\$ 45,239,192</b>	<b>\$ 1,991,722</b>	<b>\$ 205,142</b>

See Notes to the Financial Statements

**CITY OF PERHAM, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016**

**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	\$ 461,324	\$ 180,418	\$ 14,087	\$	\$ (266,819)	\$	\$ (266,819)	\$	\$
Public Safety	1,177,509	88,987	200,254	10,000	(878,268)		(878,268)		
Public Works	939,695	45,299	4,760	1,378,349	488,713		488,713		
Culture and Recreation	719,519	30,094	46,411	384,044	(258,970)		(258,970)		
Economic Development	717,617	43,584	119,635		(554,398)		(554,398)		
Airport	114,377	61,603	25,119	60	(27,595)		(27,595)		
Interest on Long-term Debt	327,891		21,519		(306,372)		(306,372)		
Total Governmental Activities	<u>4,457,932</u>	<u>449,985</u>	<u>431,785</u>	<u>1,772,453</u>	<u>(1,803,709)</u>		<u>(1,803,709)</u>		
<i>Business-type Activities:</i>									
Municipal Liquor	2,927,738	3,334,815				407,077	407,077		
Gas	5,652,063	6,361,842				709,779	709,779		
Sewer and Wastewater	1,082,120	1,276,263				194,143	194,143		
Water	545,702	730,255				184,553	184,553		
Recycling	76,591	79,171				2,580	2,580		
Total Business-type Activities	<u>10,284,214</u>	<u>11,782,346</u>				<u>1,498,132</u>	<u>1,498,132</u>		
Total Primary Government	<u>\$ 14,742,146</u>	<u>\$ 12,232,331</u>	<u>\$ 431,785</u>	<u>\$ 1,772,453</u>	<u>(1,803,709)</u>	<u>1,498,132</u>	<u>(305,577)</u>		
<i>Component Unit:</i>									
Perham Area Community Center	\$ 949,943	\$ 889,787	\$	\$ 60,526				370	
Perham Golf Course	1,089,975	903,297	51,412						(135,266)
Total Component Units	<u>\$ 2,039,918</u>	<u>\$ 1,793,084</u>	<u>\$ 51,412</u>	<u>\$ 60,526</u>				<u>370</u>	<u>(135,266)</u>
<i>General Revenues:</i>									
Property Taxes					2,113,944		2,113,944		
Hotel/Motel Taxes					41,514		41,514		
Taxes Franchise Fees					63,692		63,692		
Unrestricted State Aid					603,831	1,883	605,714		
Unrestricted Investment Earnings					164,845	36,040	200,885	1,320	
Gain on Sale of Capital Assets					81,017	137,512	218,529		
Other General Revenue					184,165		184,165		
Transfers					739,813	(739,813)			
Total General Revenues and Transfers					<u>3,992,821</u>	<u>(564,378)</u>	<u>3,428,443</u>	<u>1,320</u>	
Change in Net Position					<u>2,189,112</u>	<u>933,754</u>	<u>3,122,866</u>	<u>1,690</u>	<u>(135,266)</u>
Net Position - January 1					<u>24,072,760</u>	<u>18,043,566</u>	<u>42,116,326</u>	<u>1,990,032</u>	<u>340,408</u>
Net Position - December 31					<u>\$ 26,261,872</u>	<u>\$ 18,977,320</u>	<u>\$ 45,239,192</u>	<u>\$ 1,991,722</u>	<u>\$ 205,142</u>

See Notes to the Financial Statements

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

**Exhibit A-3**

	<u>General</u>	<u>Economic Development Revolving Loan</u>	<u>1996 IRP Loan Program</u>	<u>2009 G.O. Improve- ment Bonds</u>	<u>2015 G.O. Improve- ment Bonds</u>	<u>Permanent Improvement</u>	<u>Total Nonmajor Funds</u>	<u>Total Govern- mental Funds</u>
<b>ASSETS</b>								
Cash and Investments	\$ 925,102	\$ 666,011	\$ 1,055,117	\$ 124,537	\$ 365,854	\$ 1,355,745	\$ 2,454,640	\$ 6,947,006
Receivables								
Accounts	11,364					5,066	19,564	35,994
Interest	8,864							8,864
Tax								
Current	2,811	417			614	1,053	4,017	8,912
Delinquent	662	98			145	248	12,978	14,131
Special Assessments								
Delinquent							7,090	7,090
Noncurrent	4,520			807,142	970,620	251,622	2,085,614	4,119,518
Notes Receivable		1,289,324	1,017,074					2,306,398
Due from Other Funds	45,525							45,525
Due from Other Governments	7,886					10,518		18,404
<b>TOTAL ASSETS</b>	<b>\$ 1,006,734</b>	<b>\$ 1,955,850</b>	<b>\$ 2,072,191</b>	<b>\$ 931,679</b>	<b>\$ 1,337,233</b>	<b>\$ 1,624,252</b>	<b>\$ 4,583,903</b>	<b>\$ 13,511,842</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>								
<b>LIABILITIES</b>								
Accounts Payable	\$ 61,154	\$ 2,529	\$ 813	\$	\$	\$ 338,545	\$ 280,104	\$ 683,145
Accrued Payroll	1,024						238	1,262
Payroll Withholding	67,686							67,686
Due to Other Funds						209,177	45,525	254,702
Total Liabilities	<u>129,864</u>	<u>2,529</u>	<u>813</u>			<u>547,722</u>	<u>325,867</u>	<u>1,006,795</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Unavailable Revenue	5,182	98		807,142	970,765	251,870	2,105,682	4,140,739
Total Deferred Inflows of Resources	<u>5,182</u>	<u>98</u>		<u>807,142</u>	<u>970,765</u>	<u>251,870</u>	<u>2,105,682</u>	<u>4,140,739</u>
<b>FUND BALANCES</b>								
Nonspendable - Endowment							50,000	50,000
Restricted for:								
TIF District							514,196	514,196
Marketing							26,875	26,875
Development							1,352	1,352
Debt Service			2,071,378	124,537	366,468		1,412,268	3,974,651
Committed for:								
Development		187,115						187,115
Revolving Loans		1,766,108						1,766,108
Library							77,865	77,865
Fire and Rescue							75,821	75,821
Storm Sewer							102,764	102,764
Assigned for:								
Golf Course						868,832		868,832
Fairgrounds						120,870		120,870
PACC						34,972		34,972
Park							4,126	4,126
Unassigned	871,688					(200,014)	(112,913)	558,761
Total Fund Balances	<u>871,688</u>	<u>1,953,223</u>	<u>2,071,378</u>	<u>124,537</u>	<u>366,468</u>	<u>824,660</u>	<u>2,152,354</u>	<u>8,364,308</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 1,006,734</b>	<b>\$ 1,955,850</b>	<b>\$ 2,072,191</b>	<b>\$ 931,679</b>	<b>\$ 1,337,233</b>	<b>\$ 1,624,252</b>	<b>\$ 4,583,903</b>	<b>\$ 13,511,842</b>

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, 2016**

**Exhibit A-4**

Total fund balances - governmental funds	\$ 8,364,308
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	36,194,348
Less accumulated depreciation	(9,532,130)
Deferred outflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,169,574
Long-term liabilities used in governmental activities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(11,175,632)
Net Pension Liability	(1,756,078)
Other Long-Term Obligations	(810,455)
Issuance Discounts (to be amortized as interest expense)	(66,036)
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.	(232,785)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(95,785)
Compensated absence payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.	(96,089)
Net pension assets are not financial resources and, therefore, are not reported in the governmental funds.	157,893
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.	<u>4,140,739</u>
Net position - governmental activities	<u>\$ 26,261,872</u>

**CITY OF PERHAM, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2016**

**Exhibit A-5**

	General	Economic Develop- ment Revolving Loan	1996 IRP Loan Program	2009 G.O. Improve- ment Bonds	2015 G.O. Improve- ment Bonds	Permanent Improve- ment	Total Nonmajor Funds	Total Govern- mental Funds
<b>REVENUES</b>								
Property Taxes	\$ 369,617	\$ 54,838	\$	\$ 43	\$ 87,406	\$ 177,167	\$ 1,426,242	\$ 2,115,313
Hotel/Motel Tax							41,514	41,514
Special Assessments	281			174,727	126,707	12,201	371,013	684,929
Licenses and Permits	115,775							115,775
Intergovernmental								
Federal				7,643		1,652	13,876	23,171
State	672,850	247				743,339	50,502	1,466,938
Local	16,252						143,367	159,619
Charges for Services	98,184	21,300					108,010	227,494
Fines and Forfeitures	17,278							17,278
Miscellaneous								
Interest on Loans Receivable		52,148	66,230					118,378
Interest on Investments	4,074	3,087	1,475	688	366	8,440	13,981	32,111
Rents						39,524	71,783	111,307
Contributions	2,595					340,285	8,649	351,529
Reimbursements	61,290					187,098	21,690	270,078
Other Receipts	65,706	22,284	11,256			1,101	16,580	116,927
Total Revenues	<u>1,423,902</u>	<u>153,904</u>	<u>78,961</u>	<u>183,101</u>	<u>214,479</u>	<u>1,510,807</u>	<u>2,287,207</u>	<u>5,852,361</u>
<b>EXPENDITURES</b>								
<b>Current</b>								
General Government	386,617							386,617
Public Safety	610,207						256,427	866,634
Public Works	320,922						16,106	337,028
Culture and Recreation	340,637						205,774	546,411
Economic Development		177,190					529,394	706,584
Airport	54,655							54,655
<b>Debt Service</b>								
Principal			65,590	955,000	92,755	55,000	999,900	2,168,245
Interest			7,411	33,603	52,490	34,672	192,116	320,292
Fees				22,320	2,950		2,945	28,215
<b>Capital Outlay</b>								
General Government						297,955		297,955
Public Safety						7,500		7,500
Public Works						1,153,863	107,080	1,260,943
Culture and Recreation						667,256		667,256
Airport						67		67
Total Expenditures	<u>1,713,038</u>	<u>177,190</u>	<u>73,001</u>	<u>1,010,923</u>	<u>148,195</u>	<u>2,216,313</u>	<u>2,309,742</u>	<u>7,648,402</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>								
	<u>(289,136)</u>	<u>(23,286)</u>	<u>5,960</u>	<u>(827,822)</u>	<u>66,284</u>	<u>(705,506)</u>	<u>(22,535)</u>	<u>(1,796,041)</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Debt Issued				790,000			205,250	995,250
Bond Premium				16,278				16,278
Sale of Capital Asset	3,000	24,000				60,000		87,000
Transfers In	300,787	21,000		20,000	99,467	319,332	334,014	1,094,600
Transfers Out			(21,000)			(71,537)	(262,250)	(354,787)
Total Other Financing Sources (Uses)	<u>303,787</u>	<u>45,000</u>	<u>(21,000)</u>	<u>826,278</u>	<u>99,467</u>	<u>307,795</u>	<u>277,014</u>	<u>1,838,341</u>
<b>NET CHANGE IN FUND BALANCES</b>								
	<u>14,651</u>	<u>21,714</u>	<u>(15,040)</u>	<u>(1,544)</u>	<u>165,751</u>	<u>(397,711)</u>	<u>254,479</u>	<u>42,300</u>
<b>FUND BALANCE, JANUARY 1</b>								
	<u>857,037</u>	<u>1,931,509</u>	<u>2,086,418</u>	<u>126,081</u>	<u>200,717</u>	<u>1,222,371</u>	<u>1,897,875</u>	<u>8,322,008</u>
<b>FUND BALANCE, DECEMBER 31</b>								
	<u>\$ 871,688</u>	<u>\$ 1,953,223</u>	<u>\$ 2,071,378</u>	<u>\$ 124,537</u>	<u>\$ 366,468</u>	<u>\$ 824,660</u>	<u>\$ 2,152,354</u>	<u>\$ 8,364,308</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, 2016**

**Exhibit A-6**

Total net change in fund balances - governmental funds	\$ 42,300
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	2,143,718
Depreciation expense	(924,958)
The net effect of various capital asset transactions decreases net position.	(5,983)
Donations of capital assets do not provide current financial resources and are not reported as revenue in the funds.	10,000
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.	(995,250)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,168,245
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.	(23,878)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(36,147)
Change in deferred outflows and inflows of resources related to net pension liability	878,920
Change in net pension asset	(32,631)
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	(1,760)
Pension benefit obligation	(1,033,464)
Change in net position - governmental activities	<u>\$ 2,189,112</u>

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

**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>
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and Investments	\$ 694,374	\$ 848,224	\$ 1,380,111	\$ 955,755	\$ 80,396	\$ 3,958,860
Accounts Receivable (Net of Allowance)	751,131	171,545	46,429	4,154	6,564	979,823
Special Assessments Receivable						
Noncurrent		931	379			1,310
Due from Other Funds			209,177			209,177
Notes Receivable	175,230					175,230
Inventory				343,943		343,943
Total Current Assets	<u>1,620,735</u>	<u>1,020,700</u>	<u>1,636,096</u>	<u>1,303,852</u>	<u>86,960</u>	<u>5,668,343</u>
<b>NONCURRENT ASSETS</b>						
Restricted Cash:						
Bond Covenants	308,935	443,134				752,069
Capital Assets						
Land	7,000	779,878	516,793	220,763		1,524,434
Buildings	6,000	44,800		951,474		1,002,274
Machinery and Equipment	2,504,491	695,600	109,983	110,813	93,574	3,514,461
Improvements Other than Buildings	7,950,285	13,634,543	6,860,059			28,444,887
Less: Accumulated Depreciation	<u>(3,786,140)</u>	<u>(4,121,135)</u>	<u>(1,873,863)</u>	<u>(274,697)</u>	<u>(53,408)</u>	<u>(10,109,243)</u>
Total Capital Assets	<u>6,681,636</u>	<u>11,033,686</u>	<u>5,612,972</u>	<u>1,008,353</u>	<u>40,166</u>	<u>24,376,813</u>
Total Noncurrent Assets	<u>6,990,571</u>	<u>11,476,820</u>	<u>5,612,972</u>	<u>1,008,353</u>	<u>40,166</u>	<u>25,128,882</u>
Total Assets	<u>8,611,306</u>	<u>12,497,520</u>	<u>7,249,068</u>	<u>2,312,205</u>	<u>127,126</u>	<u>30,797,225</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Cost Sharing Defined Benefit Pension Plan	<u>100,163</u>	<u>56,849</u>	<u>56,849</u>	<u>94,748</u>	<u>2,707</u>	<u>311,316</u>
Total Deferred Outflows of Resources	<u>100,163</u>	<u>56,849</u>	<u>56,849</u>	<u>94,748</u>	<u>2,707</u>	<u>311,316</u>
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES</b>						
Accounts Payable	725,721	29,581	12,118	167,938	4,269	939,627
Accrued Payroll	76	11	11	497		595
Consumer Deposits	53,950		1,600			55,550
Accrued Interest Payable	24,661	19,366	18,703	624		63,354
Unearned Revenue	7,492					7,492
Current Portion - Long Term Liab.	348,430	279,710	162,450	149,955		940,545
Total Current Liabilities	<u>1,160,330</u>	<u>328,668</u>	<u>194,882</u>	<u>319,014</u>	<u>4,269</u>	<u>2,007,163</u>
<b>NONCURRENT LIABILITIES</b>						
Bonds Payable, Net	4,570,280	3,591,568	1,773,000			9,934,848
Loans Payable		80,039				80,039
Lease/Purchase Agreement				144,755		144,755
Compensated Absences	22,682	17,383	17,383	13,923		71,371
Net Pension Liability	240,337	136,408	136,408	227,346	6,496	746,995
Less: Current Portion of						
Long Term Liabilities	<u>(348,430)</u>	<u>(279,710)</u>	<u>(162,450)</u>	<u>(149,955)</u>		<u>(940,545)</u>
Total Noncurrent Liabilities	<u>4,484,869</u>	<u>3,545,688</u>	<u>1,764,341</u>	<u>236,069</u>	<u>6,496</u>	<u>10,037,463</u>
Total Liabilities	<u>5,645,199</u>	<u>3,874,356</u>	<u>1,959,223</u>	<u>555,083</u>	<u>10,765</u>	<u>12,044,626</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Cost Sharing Defined Benefit Pension Plan	<u>27,861</u>	<u>15,813</u>	<u>15,813</u>	<u>26,355</u>	<u>753</u>	<u>86,595</u>
Total Deferred Inflows of Resources	<u>27,861</u>	<u>15,813</u>	<u>15,813</u>	<u>26,355</u>	<u>753</u>	<u>86,595</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	2,111,356	7,872,079	3,839,972	863,598	40,166	14,727,171
Restricted for Bond Covenants	308,935	443,134				752,069
Unrestricted	<u>618,118</u>	<u>348,987</u>	<u>1,490,909</u>	<u>961,917</u>	<u>78,149</u>	<u>3,498,080</u>
Total Net Position	<u>\$ 3,038,409</u>	<u>\$ 8,664,200</u>	<u>\$ 5,330,881</u>	<u>\$ 1,825,515</u>	<u>\$ 118,315</u>	<u>\$ 18,977,320</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, 2016**

**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>
<b>OPERATING REVENUES</b>						
Sales	\$ 6,193,896	\$	\$	\$ 3,325,203	\$	\$ 9,519,099
Cost of Sales	4,687,194			2,444,535		7,131,729
Gross Profit	1,506,702			880,668		2,387,370
Charges for Services	22,738	1,199,029	709,059		76,967	2,007,793
Other Services	116,335	67,510	15,990	498	910	201,243
Total Operating Revenues	<u>1,645,775</u>	<u>1,266,539</u>	<u>725,049</u>	<u>881,166</u>	<u>77,877</u>	<u>4,596,406</u>
<b>OPERATING EXPENSES</b>						
Purchased Services					49,943	49,943
Professional Fees	100,606	42,706	42,572	16,514	33	202,431
Salaries and Benefits	291,068	146,233	150,788	278,464	5,730	872,283
Utilities	7,053	271,153	36,468	18,839		333,513
Maintenance and Supplies	93,743	83,275	76,093	25,896	11,950	290,957
Insurance	18,633	19,307	5,481	11,294	614	55,329
Depreciation	207,006	421,020	168,656	32,086	5,793	834,561
Other Expenses	64,272	35,723	14,647	93,329	2,528	210,499
Total Operating Expenses	<u>782,381</u>	<u>1,019,417</u>	<u>494,705</u>	<u>476,422</u>	<u>76,591</u>	<u>2,849,516</u>
Operating Income	<u>863,394</u>	<u>247,122</u>	<u>230,344</u>	<u>404,744</u>	<u>1,286</u>	<u>1,746,890</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>						
Intergovernmental						
State	741	432	370	309	31	1,883
Interest on Investments	10,029	5,698	13,853	6,131	329	36,040
Special Assessments		489	77			566
Refunds and Reimbursements	28,873	9,235	5,129	9,114	1,294	53,645
Gain on Disposal of Capital Assets			137,512			137,512
Contributions Made				(1,350)		(1,350)
Interest Expense	(182,488)	(62,703)	(50,997)	(5,431)		(301,619)
Total Nonoperating Revenue (Expense)	<u>(142,845)</u>	<u>(46,849)</u>	<u>105,944</u>	<u>8,773</u>	<u>1,654</u>	<u>(73,323)</u>
Income before Transfers	720,549	200,273	336,288	413,517	2,940	1,673,567
Transfers Out	(157,442)	(108,229)	(204,892)	(269,250)		(739,813)
Change in Net Position	<u>563,107</u>	<u>92,044</u>	<u>131,396</u>	<u>144,267</u>	<u>2,940</u>	<u>933,754</u>
TOTAL NET POSITION, JANUARY 1	<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>
TOTAL NET POSITION, DECEMBER 31	<u>\$ 3,038,409</u>	<u>\$ 8,664,200</u>	<u>\$ 5,330,881</u>	<u>\$ 1,825,515</u>	<u>\$ 118,315</u>	<u>\$ 18,977,320</u>

See Notes to the Financial Statements

**CITY OF PERHAM, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2016**

**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>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from Customers and Users	\$ 6,203,359	\$ 1,231,468	\$ 727,293	\$ 3,322,050	\$ 77,265	\$ 11,561,435
Receipts from Interfund Services Provided	2,569					2,569
Payments to Suppliers	(4,868,005)	(441,225)	(176,537)	(2,589,899)	(64,908)	(8,140,574)
Payments for Interfund Services Used				(2,569)		(2,569)
Payments to Employees	(280,638)	(141,505)	(146,060)	(263,314)	(5,530)	(837,047)
Net Cash Provided by Operating Activities	<u>1,057,285</u>	<u>648,738</u>	<u>404,696</u>	<u>466,268</u>	<u>6,827</u>	<u>2,583,814</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Change in Interfund Loans			27,202	105,694		132,896
Nonoperating Revenue	29,616	11,607	6,183	9,422	1,324	58,152
Nonoperating Expense				(1,350)		(1,350)
Transfers to Other Funds	(157,442)	(108,229)	(204,892)	(269,250)		(739,813)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(127,826)</u>	<u>(96,622)</u>	<u>(171,507)</u>	<u>(155,484)</u>	<u>1,324</u>	<u>(550,115)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase of Capital Assets	(715,396)	(68,062)	(13,018)			(796,476)
Payment of Long-Term Debt	(170,000)	(780,240)	(152,000)	(140,842)		(1,243,082)
Proceeds from Sale of Capital Assets			154,145			154,145
Interest on Long-Term Debt	(168,801)	(73,826)	(52,876)	(6,409)		(301,912)
Special Assessments Received		489	77			566
Net Cash Used by Capital and Related Financing Activities	<u>(1,054,197)</u>	<u>(921,639)</u>	<u>(63,672)</u>	<u>(147,251)</u>		<u>(2,186,759)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest Earnings	10,029	5,698	13,849	6,131	329	36,036
Net Cash Provided by Investing Activities	<u>10,029</u>	<u>5,698</u>	<u>13,849</u>	<u>6,131</u>	<u>329</u>	<u>36,036</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(114,709)	(363,825)	183,366	169,664	8,480	(117,024)
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<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>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 1,003,309</u>	<u>\$ 1,291,358</u>	<u>\$ 1,380,111</u>	<u>\$ 955,755</u>	<u>\$ 80,396</u>	<u>\$ 4,710,929</u>

cont.

See Notes to the Financial Statements

**CITY OF PERHAM, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2016**

**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>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Operating Income	\$ 863,394	\$ 247,122	\$ 230,344	\$ 404,744	\$ 1,286	\$ 1,746,890
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities						
Depreciation	207,006	421,020	168,656	32,086	5,793	834,561
Change in:						
Accounts Receivable	(122,688)	(35,071)	2,244	(3,651)	(612)	(159,778)
Inventory				(15,761)		(15,761)
Deferred Outflows of Resources	(78,622)	(44,623)	(44,623)	(74,372)	(2,125)	(244,365)
Accounts Payable	103,496	10,939	(1,276)	33,700	160	147,019
Accrued Payroll	(6,427)	(3,879)	(3,879)	(6,184)	(121)	(20,490)
Unearned Revenue	547					547
Compensated Absences	564	(641)	(641)	5,921	(119)	5,084
Other Current Liabilities	(4,900)					(4,900)
Net Pension Liability	84,058	47,709	47,709	79,515	2,272	261,263
Deferred Inflows of Resources	10,857	6,162	6,162	10,270	293	33,744
Total Adjustments	<u>193,891</u>	<u>401,616</u>	<u>174,352</u>	<u>61,524</u>	<u>5,541</u>	<u>836,924</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,057,285</u>	<u>\$ 648,738</u>	<u>\$ 404,696</u>	<u>\$ 466,268</u>	<u>\$ 6,827</u>	<u>\$ 2,583,814</u>

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 450<sup>th</sup> Street  
Perham, Minnesota 56573

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants which purchase, use, or directly benefit from goods,

**CITY OF PERHAM, MINNESOTA  
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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 *2009 G.O. improvement bonds fund* accounts for all activities associated with debt service for the 2009 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 *permanent improvement fund* accounts for capital outlays not accounted for in other funds.

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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.

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

**H. Property Taxes**

Property tax levies are set by the city council in December each year and are certified to the county for collection the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1.

Property taxes are payable in equal installments by property owners to the county as follows: Personal Property - February 28 and June 30; and Real Property - May 15 and October 15. The county remits the collections to the City and other taxing districts three times a year, in April, July, and December.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable. The receivable is fully offset by deferred revenue as it is not available to finance current expenditures.

**I. Special Assessments Receivable**

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

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

Special assessments receivable includes the following components:

Delinquent - amounts billed to property owners but not paid.

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

Special assessments receivables not expected to be collected within one year are \$3,770,000.

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

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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. DEFICIT FUND BALANCES**

The following funds had deficit fund balances at December 31, 2016.

2015 Improvement Project	\$26,388
2017 Improvement Project	84,879
Interchange Project	1,646

The deficits are expected to be eliminated through future revenues.

**NOTE 3. DEPOSITS AND INVESTMENTS**

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

The pooled cash account is comprised of the following:

	Primary Government	Perham Area Community Center	Perham Golf Course
Cash	\$ 11,657,935	\$ 606,205	\$ 15,362
	<u>\$ 11,657,935</u>	<u>\$ 606,205</u>	<u>\$ 15,362</u>

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

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

- (a) Direct obligations or obligations guaranteed or insured 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.

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- (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.

As if December 31, 2016, the City held no investments.

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, 2016, the City was not exposed to custodial credit risk.

**NOTE 4. CAPITAL ASSETS**

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

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Governmental Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 540,015	\$	\$ 5,983	\$ 534,032
Construction In Process	3,277,504	1,428,192	960,086	3,745,610
Total Capital Assets, Not Being Depreciated	<u>3,817,519</u>	<u>1,428,192</u>	<u>966,069</u>	<u>4,279,642</u>
Capital Assets, Being Depreciated:				
Buildings	7,319,660	832,338		8,151,998
Improvements Other Than Buildings	18,974,754	659,421		19,634,175
Machinery and Equipment	3,934,680	193,853		4,128,533
Total Capital Assets, Being Depreciated	<u>30,229,094</u>	<u>1,685,612</u>		<u>31,914,706</u>
Less Accumulated Depreciation For:				
Buildings	1,949,607	202,128		2,151,735
Improvements Other Than Buildings	5,021,877	510,733		5,532,610
Machinery and Equipment	1,635,688	212,097		1,847,785
Total Accumulated Depreciation	<u>8,607,172</u>	<u>924,958</u>		<u>9,532,130</u>
Total Capital Assets, Being Depreciated, Net	<u>21,621,922</u>	<u>760,654</u>		<u>22,382,576</u>
Governmental Activities Capital Assets, Net	<u>\$ 25,439,441</u>	<u>\$ 2,188,846</u>	<u>\$ 966,069</u>	<u>\$ 26,662,218</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Business-type Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,541,067	\$	\$ 16,633	\$ 1,524,434
Construction In Process	1,487,553		1,487,553	
Total Capital Assets, Not Being Depreciated	<u>3,028,620</u>		<u>1,504,186</u>	<u>1,524,434</u>
Capital Assets, Being Depreciated:				
Buildings	966,374	44,800	8,900	1,002,274
Improvements Other Than Buildings	27,971,696	473,191		28,444,887
Machinery and Equipment	1,775,024	1,766,039	26,602	3,514,461
Total Capital Assets, Being Depreciated	<u>30,713,094</u>	<u>2,284,030</u>	<u>35,502</u>	<u>32,961,622</u>
Less Accumulated Depreciation For:				
Buildings	193,303	24,036	8,900	208,439
Improvements Other Than Buildings	8,179,967	732,767		8,912,734
Machinery and Equipment	936,914	77,758	26,602	988,070
Total Accumulated Depreciation	<u>9,310,184</u>	<u>834,561</u>	<u>35,502</u>	<u>10,109,243</u>
Total Capital Assets, Being Depreciated, Net	<u>21,402,910</u>	<u>1,449,469</u>		<u>22,852,379</u>
Business-type Activities Capital Assets, Net	<u>\$ 24,431,530</u>	<u>\$ 1,449,469</u>	<u>\$ 1,504,186</u>	<u>\$ 24,376,813</u>

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

Governmental Activities:	
General Government	\$ 39,677
Public Safety	155,840
Public Works, including Depreciation of General Infrastructure Assets	507,888
Culture and Recreation	160,323
Economic Development	1,575
Airport	59,655
Total Depreciation Expense - Governmental Activities	<u>\$ 924,958</u>
Business-type Activities:	
Gas	\$ 207,006
Sewer and Wastewater	421,020
Water	168,656
Municipal Liquor	32,086
Recycling	5,793
Total Depreciation Expense - Business-type Activities	<u>\$ 834,561</u>

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**Component Units (Unaudited)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>Perham Area Community Center</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 41,130	\$	\$	\$ 41,130
Capital Assets, Being Depreciated:				
Buildings	3,004,699	21,892		3,026,591
Machinery and Equipment	581,705	76,130		657,835
Total Capital Assets, Being Depreciated	<u>3,586,404</u>	<u>98,022</u>		<u>3,684,426</u>
Total Accumulated Depreciation	<u>2,050,207</u>	<u>156,831</u>		<u>2,207,038</u>
Total Capital Assets, Being Depreciated, Net	<u>1,536,197</u>	<u>(58,809)</u>		<u>1,477,388</u>
Perham Area Community Center Capital Assets, Net	<u>\$ 1,577,327</u>	<u>\$ (58,809)</u>	<u>\$</u>	<u>\$ 1,518,518</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>Perham Golf Course</u></b>				
Capital Assets, Being Depreciated:				
Improvements Other than Buildings	\$ 270,892	\$ 168,276	\$	\$ 439,168
Machinery and Equipment	819,959	151,245		971,204
Total Capital Assets, Being Depreciated	<u>1,090,851</u>	<u>319,521</u>		<u>1,410,372</u>
Less Accumulated Depreciation For:				
Improvements Other than Buildings	80,824	5,609		86,433
Machinery and Equipment	621,356	96,909		718,265
Total Accumulated Depreciation	<u>702,180</u>	<u>102,518</u>		<u>804,698</u>
Perham Golf Course Capital Assets, Net	<u>\$ 388,671</u>	<u>\$ 217,003</u>	<u>\$</u>	<u>\$ 605,674</u>

**NOTE 5. NOTES RECEIVABLE**

The City has various notes receivable from individuals and organizations at December 31, 2016, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Special Revenue Funds			
Economic Development Loans	2017 - 2023	0.0 – 6.0%	\$ 1,336,324
Debt Service Funds			
Economic Development Loans	2017 - 2023	0.0 - 6.95%	1,107,074
Gas Fund			
Youth Build Affordable Housing Project Loans		2.5%	<u>175,230</u>
Total			<u>\$ 2,618,628</u>

The provision for uncollectible was \$137,000.

**NOTE 6. CONTINGENT LIABILITIES AND COMMITMENTS**

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse

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the grantor government. As of December 31, 2016, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

At December 31, 2016, the City had a \$91,000 commitment for an uncompleted construction contract for the 2015 Street Project, a \$4,400 commitment for an uncompleted construction contract for the Victory Estates project, a \$4,400 commitment for and uncompleted construction contract for the Coney Street East improvement project, and a \$727,000 commitment for an uncompleted construction contract for the Golf Course Event Center project.

**NOTE 7. DEFINED BENEFIT PENSION PLANS**

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

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

*General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))*

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

*Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))*

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

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

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

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

*General Employees Plan Benefits*

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity 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.

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*Police and Fire Plan Benefits*

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

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

*General Employees Fund Contributions*

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$78,737. The City's contributions were equal to the required contributions as set by state statute.

*Police and Fire Fund Contributions*

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$46,273. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2016, the City reported a liability of \$1,299,121 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6,000,000 to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$17,062. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0160% which was a decrease of 0.0003% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$165,530 for its proportionate share of General Employee Plan's pension expense. In addition, the City recognized an additional \$5,088 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6,000,000 to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of the General Employee Plan'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	\$	\$ 106,058
Difference between projected and actual investment earnings	247,684	
Changes in actuarial assumptions	254,370	
Changes in proportion		44,541
Contributions paid to PERA subsequent to the measurement date	39,362	
Total	\$ 541,416	\$ 150,599

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\$39,362 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017.

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

<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 91,296
2018	91,296
2019	121,936
2020	46,927

At December 31, 2016, the City reported a liability of \$1,203,952 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0300%, which was a decrease of 0.0020% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$200,932 for its proportionate share of Police and Fire Plan's pension expense. The City also recognized \$2,700 for the year ended December 31, 2016 as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9,000,000 to the Police and Fire Fund each year, starting in fiscal year 2014.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 141,067
Difference between projected and actual investment earnings	186,702	
Changes in actuarial assumptions	662,590	
Changes in proportion	7,200	18,935
Contributions paid to PERA subsequent to the measurement date	23,136	
Total	<u>\$ 879,628</u>	<u>\$ 160,002</u>

\$23,136 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 150,594
2018	150,594
2019	150,594
2020	134,756
2021	109,952

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

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

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

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

The following changes in actuarial assumptions occurred in 2016:

**General Employees Fund**

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

**Police and Fire Fund**

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

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

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

Discount Rate – The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the

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General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	City Proportionate Share of NPL		
	<u>1% Decrease (6.5%)</u>	<u>Current (7.5%)</u>	<u>1% Increase (8.5%)</u>
General Employees Fund	\$ 1,845,136	\$ 1,299,121	\$ 849,352
	<u>1% Decrease (4.6%)</u>	<u>Current (5.6%)</u>	<u>1% Increase (6.6%)</u>
Police and Fire Fund	1,685,373	1,203,952	810,595

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](http://www.mnpera.org).

**NOTE 8. 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, 2015, the membership of the Association consisted of:

Retired and Terminated Members:	
Received Benefits	0
Deferred Benefits	3
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>33</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.

**CITY OF PERHAM, MINNESOTA  
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**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:

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. A supplemental survivor benefit in the amount of 20% of the total benefit paid, but not more than \$2,000 shall be paid to the surviving spouse or surviving child or children. 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.

**CITY OF PERHAM, MINNESOTA  
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**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.

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 \$44,344 were made by the State of Minnesota in accordance with State Statute requirements for the year ended December 31, 2015. These contributions were for \$41,344 of normal costs and \$3,000 for supplemental benefits. The City's statutorily required contribution was \$0.

**Pension Costs**

At December 31, 2016, the City reported a net pension asset of \$157,893 for the plan. The net pension asset was measured as of December 31, 2015. 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, 2015. The following table presents the changes in net pension liability during the year.

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**Changes in Net Position Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at previous Measurement Date 12/31/2014	\$ 576,528	\$ 767,052	\$ (190,524)
Changes for the year:			
Service Cost	26,367		26,367
Interest	31,200		31,200
Difference between expected and actual experience			-
Changes of assumptions	(9,948)		(9,948)
Changes of benefit terms			-
Contributions - State and local		44,344	(44,344)
Contributions - donations and other income			-
Contributions - member			-
Net investment income		(24,949)	24,949
Other additions (e.g. receivables)			-
Benefit payments, including member contribution refunds	(17,200)	(17,200)	-
Administrative expense		(4,407)	4,407
Other deductions (e.g. payables)			-
Net Changes	30,419	(2,212)	32,631
Balance at current Measurement Date 12/31/2015	\$ 606,947	\$ 764,840	\$ (157,893)

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2016, the City recognized pension expense of \$23,159.

At December 31, 2016, the City reported deferred outflows of resources related to pension from the following sources:

	Outflows	Inflows
<u>Summary of Deferred Outflows (Inflows)</u>		
A. Difference between expected and actual liability	\$	\$
B. Changes in assumptions		8,779
C. Net difference between projected and actual investment earnings	59,846	
D. Total	\$ 59,846	\$ 8,779

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

Year End December 31	Pension Expense Amount
2017	\$ 14,450
2018	14,450
2019	14,451
2020	11,819
2021	(1,169)
Thereafter	(2,934)

**CITY OF PERHAM, MINNESOTA  
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**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, 2015, and using the following actuarial assumptions. The plan has not had a formal actuarial experience study performed.

- Investment rate of return is 6.0%;
- 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, 2016.

<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	38.66%	5.58%	8.33%
International Equity	12.52%	5.71%	8.46%
Fixed Income	34.55%	2.27%	5.02%
Real Estate and Alternatives	0.54%	4.44%	7.19%
Cash and Equivalents	13.73%	0.84%	3.59%

**Discount Rate**

The discount rate used to measure the total pension liability was 6.0 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 6.0 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 (5.0 percent) or one-percentage-point higher (7.0 percent) than the current rate:

\$	<u>1% Decrease (5%)</u>	<u>Current (6%)</u>	<u>1% Increase (7%)</u>
	(144,583) \$	(157,893) \$	(170,806)

**Pension Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position as of December 31, 2015, 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.

CITY OF PERHAM, MINNESOTA  
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NOTE 9. 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 \$16,103,220. During the year, general obligation bonds totaling \$790,000 were issued to refund an existing debt issue.

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.4 – 5.5%	\$ 5,529,400
Governmental Activities – Refunding	0.85 – 3.2%	3,535,000
Business-type Activities	2.25 – 3.1%	1,580,000
Business-type Activities – Refunding	0.85 – 3.2%	330,000

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

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,191,500	\$ 231,693	\$ 240,000	\$ 45,644
2018	887,000	207,530	250,000	39,237
2019	912,700	186,595	255,000	32,569
2020	798,300	167,456	195,000	25,743
2021	810,000	148,236	200,000	20,770
2022-2026	3,220,100	434,877	770,000	35,295
2027-2031	1,244,800	85,815		
	<u>\$ 9,064,400</u>	<u>\$ 1,462,202</u>	<u>\$ 1,910,000</u>	<u>\$ 199,258</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 \$9,757,799. During the year, general obligation revenue bonds totaling \$205,250 were issued to finance street improvements.

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%	\$2,111,232
Business-type Activities	1.0 – 2.8%	4,479,000
Business-type Activities - Refunding	3.0 – 4.0%	510,000

**CITY OF PERHAM, MINNESOTA**  
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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
2017	\$ 169,000	\$ 25,365	\$ 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	108,000	18,173	292,000	64,397
2022-2026	555,000	73,724	1,411,000	217,618
2027-2031	585,000	44,102	830,000	90,179
2032-2036	158,232	8,997	544,000	50,840
2037-2041			570,000	23,100
2042			118,000	1,180
	<u>\$ 2,111,232</u>	<u>\$ 241,835</u>	<u>\$ 4,989,000</u>	<u>\$ 773,890</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	3.5 – 4.7%	\$2,970,000

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2017	\$ 180,000	\$ 125,773
2018	185,000	119,153
2019	190,000	111,980
2020	200,000	104,274
2021	205,000	96,175
2022-2026	1,175,000	336,758
2027-2030	835,000	60,686
	<u>\$ 2,970,000</u>	<u>\$ 954,799</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 \$312,065 and \$358,640 at December 31, 2016.

The City has the following loans:

<u>Lender</u>	<u>Interest Rates</u>	<u>Amount</u>
U.S. Department of Agriculture	1.0%	\$ 670,705
United Community Bank	3.5%	139,750
Contract for Deed	1.3%	80,039
		<u>\$ 890,494</u>

  

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.0 – 3.5%	\$810,455
Business-type Activities	1.3%	80,039

**CITY OF PERHAM, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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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	\$ 86,248	\$ 11,651	\$ 39,750	\$ 1,000
2017	86,912	10,288	40,289	483
2018	87,583	8,918		
2019	88,259	7,547		
2020	128,694	6,157		
2021-2025	270,009	10,269		
2026-2028	62,750	746		
	<u>\$ 810,455</u>	<u>\$ 55,576</u>	<u>\$ 80,039</u>	<u>\$ 1,483</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%	\$144,755

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2017	\$ 144,755	\$ 2,497
	<u>\$ 144,755</u>	<u>\$ 2,497</u>

**Current Refunding.** During 2016, the City issued \$790,000 in general obligation refunding bonds with interest rates ranging between 2.0 to 2.5%. The City issued the bonds to refund the following outstanding general obligations:

<u>General Obligation</u>	<u>Refunding Date</u>	<u>Interest Rate</u>	<u>Amount</u>
G.O. Improvement Bonds of 2009A	2/1/2016	4.0 - 5.5	\$ 780,000

The City will realize a savings of \$88,948, with a present value of \$33,808.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Governmental Activities</u></b>					
Bonds Payable					
General Obligation Bonds	\$ 10,164,300	\$ 790,000	\$ 1,889,900	\$ 9,064,400	\$ 1,191,500
General Obligation Revenue Bonds	2,098,737	205,250	192,755	2,111,232	169,000
Subtotal Bonds Payable	<u>12,263,037</u>	<u>995,250</u>	<u>2,082,655</u>	<u>11,175,632</u>	<u>1,360,500</u>
Unamortized Premium	45,558	16,278	(4,200)	66,036	(6,807)
Total Bonds Payable	<u>12,308,595</u>	<u>1,011,528</u>	<u>2,078,455</u>	<u>11,241,668</u>	<u>1,353,693</u>
Other Long-term Obligations					
Loans Payable	896,045		85,590	810,455	86,248
Total Other Long-term Obligations	<u>896,045</u>		<u>85,590</u>	<u>810,455</u>	<u>86,248</u>
Compensated Absences Governmental Activity Long-term Liabilities	<u>94,329</u>	<u>69,042</u>	<u>67,282</u>	<u>96,089</u>	<u>35,720</u>
	<u>\$ 13,298,969</u>	<u>\$ 1,080,570</u>	<u>\$ 2,231,327</u>	<u>\$ 12,148,212</u>	<u>\$ 1,475,661</u>
<b><u>Business-type Activities</u></b>					
Bonds Payable					
General Obligation Bonds	\$ 1,985,000	\$	\$ 75,000	\$ 1,910,000	\$ 240,000
General Obligation Revenue Bonds	5,807,000		818,000	4,989,000	303,000
Revenue Bonds	3,140,000		170,000	2,970,000	180,000
Subtotal Bonds Payable	<u>10,932,000</u>		<u>1,063,000</u>	<u>9,869,000</u>	<u>723,000</u>
Unamortized Premium	72,358		6,510	65,848	6,510
Total Bonds Payable	<u>11,004,358</u>		<u>1,069,510</u>	<u>9,934,848</u>	<u>729,510</u>
Other Long-term Obligations					
Lease/Purchase Agreement	285,597		140,842	144,755	144,755
Loans Payable	119,264		39,225	80,039	39,750
Total Other Long-term Obligations	<u>404,861</u>		<u>180,067</u>	<u>224,794</u>	<u>184,505</u>
Compensated Absences Business-type Activity Long-term Liabilities	<u>66,287</u>	<u>28,665</u>	<u>23,581</u>	<u>71,371</u>	<u>26,530</u>
	<u>\$ 11,475,506</u>	<u>\$ 28,665</u>	<u>\$ 1,273,158</u>	<u>\$ 10,231,013</u>	<u>\$ 940,545</u>

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

See the Schedule of Indebtedness for detail and payment provisions.

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

**Loans Payable.** The following loans have been issued:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Perham Golf Course	5.0%	\$120,313

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>
2017	\$ 58,395	\$ 2,838
2018	40,574	1,870
2019	21,344	853
	<u>\$ 120,313</u>	<u>\$ 5,561</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Perham Golf Course</u></b>					
Other Long-term Obligations					
Loans Payable	\$ 127,645	\$ 29,474	\$ 36,806	\$ 120,313	\$ 58,395
Lifetime Memberships	16,500			16,500	1,500
Component Unit Long-term Liabilities	<u>\$ 144,145</u>	<u>\$ 29,474</u>	<u>\$ 36,806</u>	<u>\$ 136,813</u>	<u>\$ 59,895</u>

**NOTE 10. 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 \$350,100. The interest rate is 4.95%. The balance outstanding as of December 31, 2016, was \$337,529.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
	\$ 114,000	\$ 223,529	\$	\$ 337,529

**NOTE 11. 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, 2016, the aggregate principal amount payable of the one series issued was \$549,218. The original issue amount totaled \$952,317.

**CITY OF PERHAM, MINNESOTA  
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**NOTE 12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

Due to / from other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 45,525
Water	Permanent Improvement	209,177
		<u>\$ 254,702</u>

The amount payable is to finance the operation of the fund. Approximately \$28,000 of the balance is scheduled to be collected after 2017.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Municipal Liquor	\$ 114,250
General	Sewer and Wastewater	15,500
General	Water	15,500
General	Gas	84,000
General	Permanent Improvement	71,537
Economic Development Revolving Loan	1996 IRP Loan Program	21,000
2009 G.O. Improvement Bonds	Nonmajor Governmental	20,000
Permanent Improvement	Municipal Liquor	155,000
Permanent Improvement	Sewer and Wastewater	7,777
Permanent Improvement	Water	81,177
Permanent Improvement	Gas	73,442
Permanent Improvement	Nonmajor Governmental	1,936
2015 G.O. Improvement Bonds	Sewer and Wastewater	49,598
2015 G.O. Improvement Bonds	Water	49,869
Nonmajor Governmental	Sewer and Wastewater	35,354
Nonmajor Governmental	Water	58,346
Nonmajor Governmental	Nonmajor Governmental	240,314
		<u>\$ 1,094,600</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 13. MAJOR CUSTOMERS**

The City has four major customers, which represent about 50% of the gas, water, and sewer utility revenue.

<u>Name</u>	
Company 1	30%
Company 2	7%
Company 3	6%
Company 4	7%

**CITY OF PERHAM, MINNESOTA  
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**NOTE 14. 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, 2016, 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 15. NEW PRONOUNCEMENTS**

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

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

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

**CITY OF PERHAM, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>				
Property Taxes	\$ 371,528	\$ 371,528	\$ 369,617	\$ (1,911)
Special Assessments			281	281
Licenses and Permits	98,600	98,600	115,775	17,175
Intergovernmental				
State				
Local Governmental Aid	602,627	602,627	602,627	
Police Aid	38,000	38,000	40,655	2,655
PERA	648	648	648	
Aviation Maintenance Aid	25,358	25,358	25,119	(239)
Other	2,500	2,500	3,801	1,301
Other Local Government	11,000	11,000	16,252	5,252
	<u>680,133</u>	<u>680,133</u>	<u>689,102</u>	<u>8,969</u>
Charges for Services				
General Government	46,530	46,530	64,642	18,112
Police Department	2,000	2,000	943	(1,057)
Airport	65,500	65,500	32,599	(32,901)
	<u>114,030</u>	<u>114,030</u>	<u>98,184</u>	<u>(15,846)</u>
Fines and Forfeitures	21,000	21,000	17,278	(3,722)
Miscellaneous				
Interest on Investments	4,500	4,500	4,074	(426)
Contributions	3,000	3,000	2,595	(405)
Reimbursements	15,000	60,258	61,290	1,032
Other Receipts	62,500	62,500	65,706	3,206
	<u>85,000</u>	<u>130,258</u>	<u>133,665</u>	<u>3,407</u>
Total Revenues	<u>1,370,291</u>	<u>1,415,549</u>	<u>1,423,902</u>	<u>8,353</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, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>EXPENDITURES</b>				
General Government				
Mayor and Council	29,415	103,650	105,689	2,039
Finance / Administration	156,859	156,859	147,188	(9,671)
Elections	3,950	3,950	3,598	(352)
Independent Auditors	3,500	3,500	3,027	(473)
Legal Services	5,500	5,500	3,933	(1,567)
Planning and Zoning	9,000	9,000	7,725	(1,275)
Building Inspection Fees	79,400	79,400	87,794	8,394
Municipal Building	31,500	31,500	27,663	(3,837)
	<u>319,124</u>	<u>393,359</u>	<u>386,617</u>	<u>(6,742)</u>
Public Safety				
Police Protection	594,838	594,838	598,474	3,636
Police Station	12,000	12,000	11,733	(267)
	<u>606,838</u>	<u>606,838</u>	<u>610,207</u>	<u>3,369</u>
Public Works				
Streets and Alleys	140,830	140,830	181,704	40,874
Snow and Ice Removal	62,400	62,400	61,160	(1,240)
Street Lighting	61,000	78,059	78,058	(1)
	<u>264,230</u>	<u>281,289</u>	<u>320,922</u>	<u>39,633</u>
Culture and Recreation				
Senior Center	31,850	31,850	31,758	(92)
Municipal Parks	270,449	270,449	308,879	38,430
	<u>302,299</u>	<u>302,299</u>	<u>340,637</u>	<u>38,338</u>
Airport	77,050	77,050	54,655	(22,395)
Total Expenditures	<u>1,569,541</u>	<u>1,660,835</u>	<u>1,713,038</u>	<u>52,203</u>
REVENUES UNDER EXPENDITURES	<u>(199,250)</u>	<u>(245,286)</u>	<u>(289,136)</u>	<u>(43,850)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets			3,000	3,000
Transfers In	229,250	300,787	300,787	
Transfers Out	(30,000)	(30,000)		30,000
Total Other Financing Sources (Uses)	<u>199,250</u>	<u>270,787</u>	<u>303,787</u>	<u>33,000</u>
NET CHANGE IN FUND BALANCES		25,501	14,651	(10,850)
FUND BALANCE, JANUARY 1	<u>857,037</u>	<u>857,037</u>	<u>857,037</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 857,037</u>	<u>\$ 882,538</u>	<u>\$ 871,688</u>	<u>\$ (10,850)</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, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>				
Property Taxes	\$ 55,044	\$ 55,044	\$ 54,838	\$ (206)
Intergovernmental - State				
PERA	250	250	247	(3)
Charges for Services	22,200	22,200	21,300	(900)
Miscellaneous				
Interest on Investments	4,000	4,000	3,087	(913)
Interest on Loans Receivable	50,000	50,000	52,148	2,148
Other Receipts	100	21,653	22,284	631
Total Revenues	<u>131,594</u>	<u>153,147</u>	<u>153,904</u>	<u>757</u>
<b>EXPENDITURES</b>				
Current				
Economic Development	<u>152,594</u>	<u>162,943</u>	<u>177,190</u>	<u>14,247</u>
Total Expenditures	<u>152,594</u>	<u>162,943</u>	<u>177,190</u>	<u>14,247</u>
REVENUES UNDER EXPENDITURES	<u>(21,000)</u>	<u>(9,796)</u>	<u>(23,286)</u>	<u>(13,490)</u>
<b>OTHER FINANCING SOURCES</b>				
Sale of Capital Asset			24,000	24,000
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>45,000</u>	<u>24,000</u>
NET CHANGE IN FUND BALANCES		11,204	21,714	10,510
FUND BALANCE, JANUARY 1	<u>1,931,509</u>	<u>1,931,509</u>	<u>1,931,509</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 1,931,509</u>	<u>\$ 1,942,713</u>	<u>\$ 1,953,223</u>	<u>\$ 10,510</u>

See Notes to the Required Supplementary Information

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

	Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
General Employees Fund	2015	\$ 72,936	\$ 72,936	\$	\$ 962,478	7.58 %
	2016	78,737	78,737		1,049,825	7.50
Police and Fire Fund	2015	\$ 47,059	\$ 47,059	\$	\$ 290,493	16.20 %
	2016	46,273	46,273		285,633	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**

	Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
General Employees Fund	2015	0.0163 %	\$ 844,751	\$	\$ 844,751	\$ 955,309	88.43 %	78.19 %
	2016	0.0160	1,299,121	17,062	1,316,183	962,478	136.75	68.90
Police and Fire Fund	2015	0.0320 %	\$ 363,595	\$	\$ 363,595	\$ 287,601	126.42 %	86.61 %
	2016	0.0320	1,203,952		1,203,952	290,493	414.45	63.90

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

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

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

Fiscal Year	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service Cost	\$ 25,661	\$ 26,367
Interest Cost	29,202	31,200
Changes of Assumptions		(9,948)
Benefit Payments	<u>(17,800)</u>	<u>(17,200)</u>
Net Change in Total Pension Liability	37,063	30,419
Total Pension Liability - Beginning	<u>539,465</u>	<u>576,528</u>
Total Pension Liability - Ending	<u>\$ 576,528</u>	<u>\$ 606,947</u>
Plan Fiduciary Net Position		
Contributions - State and Local	54,330	44,344
Net Investment Income	23,603	(24,949)
Benefit Payments	(17,800)	(17,200)
Pension Plan Administrative Expense	<u>(4,187)</u>	<u>(4,407)</u>
Net Change in Plan Fiduciary Net Position	55,946	(2,212)
Plan Fiduciary Net Position - Beginning	<u>711,106</u>	<u>767,052</u>
Plan Fiduciary Net Position - Ending	<u>\$ 767,052</u>	<u>\$ 764,840</u>
Net Pension Liability - Ending	\$ (190,524)	\$ (157,893)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	133.05%	126.01%
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>
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		
2015	44,344	44,344		

\* 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	12/31/2015
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	6.00%
Projected salary increases	N/A
Inflation Rate	2.75%
Cost-of-living adjustments	N/A

**CITY OF PERHAM, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2016**

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**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, 2016, expenditures exceeded appropriations in the general fund and the economic development revolving loan fund by \$52,203 and \$14,247 respectively.

**NOTE 3. DEFINED BENEFIT PLANS**

**PERA**

**General Employees Fund**

*2016 Changes*

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

*2015 Changes*

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

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

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

**Exhibit B-1**

	<b>Special Revenue Funds Exhibit C-1</b>	<b>Debt Service Funds Exhibit C-3</b>	<b>Capital Projects Funds Exhibit C-5</b>	<b>Permanent Fund</b>	<b>Total Nonmajor Governmental Funds Exhibit A-3</b>
<b>ASSETS</b>					
Cash and Investments	\$ 805,778	\$ 1,409,972	\$ 184,764	\$ 54,126	\$ 2,454,640
Accounts Receivable	19,564				19,564
Tax Receivable - Current	1,721	2,296			4,017
Tax Receivable - Delinquent	12,438	540			12,978
Special Assessments Receivable					
Delinquent		7,090			7,090
Noncurrent		2,085,614			2,085,614
<b>TOTAL ASSETS</b>	<b>\$ 839,501</b>	<b>\$ 3,505,512</b>	<b>\$ 184,764</b>	<b>\$ 54,126</b>	<b>\$ 4,583,903</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 27,952		\$ 252,152		\$ 280,104
Accrued Payroll	238				238
Due to Other Funds			45,525		45,525
<b>Total Liabilities</b>	<b>28,190</b>		<b>297,677</b>		<b>325,867</b>
<b>Deferred Inflows of Resources</b>					
Unavailable Revenue	12,438	2,093,244			2,105,682
<b>Total Deferred Inflows of Resources</b>	<b>12,438</b>	<b>2,093,244</b>			<b>2,105,682</b>
<b>Fund Balance</b>					
Nonspendable - Endowment				50,000	50,000
Restricted for:					
TIF District	514,196				514,196
Marketing	26,875				26,875
Development	1,352				1,352
Debt Service		1,412,268			1,412,268
Committed for:					
Library	77,865				77,865
Fire and Rescue	75,821				75,821
Storm Sewer	102,764				102,764
Assigned					
Park				4,126	4,126
Unassigned			(112,913)		(112,913)
<b>Total Fund Balance</b>	<b>798,873</b>	<b>1,412,268</b>	<b>(112,913)</b>	<b>54,126</b>	<b>2,152,354</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 839,501</b>	<b>\$ 3,505,512</b>	<b>\$ 184,764</b>	<b>\$ 54,126</b>	<b>\$ 4,583,903</b>

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

**Exhibit B-2**

	Special Revenue Funds <u>Exhibit C-2</u>	Debt Service Funds <u>Exhibit C-4</u>	Capital Projects Funds <u>Exhibit C-6</u>	Permanent Fund	Total Nonmajor Governmental Funds <u>Exhibit A-5</u>
<b>REVENUES</b>					
Property Taxes	\$ 1,097,006	\$ 329,236		\$	\$ 1,426,242
Hotel/Motel Tax	41,514				41,514
Special Assessments		371,013			371,013
Intergovernmental - Federal		13,876			13,876
Intergovernmental - State	50,502				50,502
Intergovernmental - Local	143,367				143,367
Charges for Services	108,010				108,010
Miscellaneous					
Interest on Investments	3,002	7,475		3,504	13,981
Rent		71,783			71,783
Contributions	8,649				8,649
Reimbursements	21,690				21,690
Other Receipts	16,580				16,580
Total Revenues	<u>1,490,320</u>	<u>793,383</u>		<u>3,504</u>	<u>2,287,207</u>
<b>EXPENDITURES</b>					
Current					
Public Safety	256,427				256,427
Public Works	16,106				16,106
Culture and Recreation	202,256			3,518	205,774
Economic Development	529,394				529,394
Debt					
Principal		999,900			999,900
Interest	2,056	190,060			192,116
Fees		2,945			2,945
Capital Outlay					
Public Works			107,080		107,080
Total Expenditures	<u>1,006,239</u>	<u>1,192,905</u>	<u>107,080</u>	<u>3,518</u>	<u>2,309,742</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>484,081</u>	<u>(399,522)</u>	<u>(107,080)</u>	<u>(14)</u>	<u>(22,535)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Debt Issued			205,250		205,250
Transfers In		317,882	16,132		334,014
Transfers Out	(260,314)	(1,936)			(262,250)
Total Other Financing Sources (Uses)	<u>(260,314)</u>	<u>315,946</u>	<u>221,382</u>		<u>277,014</u>
NET CHANGE IN FUND BALANCES	<u>223,767</u>	<u>(83,576)</u>	<u>114,302</u>	<u>(14)</u>	<u>254,479</u>
FUND BALANCE, JANUARY 1	<u>575,106</u>	<u>1,495,844</u>	<u>(227,215)</u>	<u>54,140</u>	<u>1,897,875</u>
FUND BALANCE, DECEMBER 31	<u>\$ 798,873</u>	<u>\$ 1,412,268</u>	<u>\$ (112,913)</u>	<u>\$ 54,126</u>	<u>\$ 2,152,354</u>

**CITY OF PERHAM, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 DECEMBER 31, 2016**

**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>
<b>ASSETS</b>							
Cash and Investments	\$ 85,290	\$ 77,253	\$ 1,352	\$ 516,243	\$ 98,765	\$ 26,875	\$ 805,778
Accounts Receivable		15,461			4,103		19,564
Tax Receivable - Current	928	793					1,721
Tax Receivable - Delinquent	229	187		12,022			12,438
<b>TOTAL ASSETS</b>	<b>\$ 86,447</b>	<b>\$ 93,694</b>	<b>\$ 1,352</b>	<b>\$ 528,265</b>	<b>\$ 102,868</b>	<b>\$ 26,875</b>	<b>\$ 839,501</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>							
Liabilities							
Accounts Payable	\$ 8,189	\$ 17,612		\$ 2,047	\$ 104		\$ 27,952
Accrued Payroll	164	74					238
<b>Total Liabilities</b>	<b>8,353</b>	<b>17,686</b>		<b>2,047</b>	<b>104</b>		<b>28,190</b>
Deferred Inflows of Resources							
Unavailable Revenue	229	187		12,022			12,438
<b>Total Deferred Inflows of Resources</b>	<b>229</b>	<b>187</b>		<b>12,022</b>			<b>12,438</b>
Fund Balance							
Restricted for:							
TIF District				514,196			514,196
Marketing						26,875	26,875
Development			1,352				1,352
Committed for:							
Library	77,865						77,865
Fire and Rescue		75,821					75,821
Storm Sewer					102,764		102,764
<b>Total Fund Balance</b>	<b>77,865</b>	<b>75,821</b>	<b>1,352</b>	<b>514,196</b>	<b>102,764</b>	<b>26,875</b>	<b>798,873</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 86,447</b>	<b>\$ 93,694</b>	<b>\$ 1,352</b>	<b>\$ 528,265</b>	<b>\$ 102,868</b>	<b>\$ 26,875</b>	<b>\$ 839,501</b>

**CITY OF PERHAM, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED DECEMBER 31, 2016**

**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>
<b>REVENUES</b>							
Property Taxes	\$ 127,812	\$ 104,213	\$	\$ 864,981	\$	\$	1,097,006
Hotel/Motel Tax						41,514	41,514
Intergovernmental - State							
Fire Aid		41,878					41,878
PERA	309						309
Other State Aid		8,315					8,315
Intergovernmental - Local							
Other Local Government	38,762						38,762
Township		104,605					104,605
Charges for Services	6,282	56,429			45,299		108,010
Miscellaneous							
Interest on Investments	422	496		1,531	386	167	3,002
Contributions	7,649	1,000					8,649
Reimbursements	21,690						21,690
Other Receipts	2,122	14,337			121		16,580
Total Revenues	<u>205,048</u>	<u>331,273</u>		<u>866,512</u>	<u>45,806</u>	<u>41,681</u>	<u>1,490,320</u>
<b>EXPENDITURES</b>							
Current							
Public Safety		256,427					256,427
Public Works					16,106		16,106
Culture and Recreation	202,256						202,256
Economic Development			19,399	464,995		45,000	529,394
Debt Service							
Interest		2,056					2,056
Total Expenditures	<u>202,256</u>	<u>258,483</u>	<u>19,399</u>	<u>464,995</u>	<u>16,106</u>	<u>45,000</u>	<u>1,006,239</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>2,792</u>	<u>72,790</u>	<u>(19,399)</u>	<u>401,517</u>	<u>29,700</u>	<u>(3,319)</u>	<u>484,081</u>
<b>OTHER FINANCING USES</b>							
Transfers Out				(260,314)			(260,314)
Total Other Financing Uses				<u>(260,314)</u>			<u>(260,314)</u>
NET CHANGE IN FUND BALANCES	<u>2,792</u>	<u>72,790</u>	<u>(19,399)</u>	<u>141,203</u>	<u>29,700</u>	<u>(3,319)</u>	<u>223,767</u>
FUND BALANCE, JANUARY 1	<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>
FUND BALANCE, DECEMBER 31	<u>\$ 77,865</u>	<u>\$ 75,821</u>	<u>\$ 1,352</u>	<u>\$ 514,196</u>	<u>\$ 102,764</u>	<u>\$ 26,875</u>	<u>\$ 798,873</u>

**CITY OF PERHAM, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR DEBT SERVICE FUNDS  
 DECEMBER 31, 2016**

**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 Industrial Park Improvement</u>	<u>Golf Course</u>
<b>ASSETS</b>					
Cash and Investments	\$ 97,142	\$ 421,429	\$ 111,710	\$ 246,714	\$ 66,221
Taxes Receivable - Current		421	198		
Taxes Receivable - Delinquent		99	46		
Special Assessments Receivable					
Delinquent	1,966				
Noncurrent	<u>177,193</u>	<u>187,639</u>	<u>508,175</u>	<u>153,511</u>	
<b>TOTAL ASSETS</b>	<u>\$ 276,301</u>	<u>\$ 609,588</u>	<u>\$ 620,129</u>	<u>\$ 400,225</u>	<u>\$ 66,221</u>
<b>DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	<u>\$ 179,159</u>	<u>\$ 187,738</u>	<u>\$ 508,221</u>	<u>\$ 153,511</u>	
Total Deferred Inflows of Resources	<u>179,159</u>	<u>187,738</u>	<u>508,221</u>	<u>153,511</u>	
<b>FUND BALANCE</b>					
Restricted for Debt Service	<u>97,142</u>	<u>421,850</u>	<u>111,908</u>	<u>246,714</u>	<u>66,221</u>
Total Fund Balance	<u>97,142</u>	<u>421,850</u>	<u>111,908</u>	<u>246,714</u>	<u>66,221</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 276,301</u>	<u>\$ 609,588</u>	<u>\$ 620,129</u>	<u>\$ 400,225</u>	<u>\$ 66,221</u>

cont.

**CITY OF PERHAM, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR DEBT SERVICE FUNDS  
 DECEMBER 31, 2016**

**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>
<b>ASSETS</b>						
Cash and Investments	\$ 32,723	\$ 82,955	\$ 195,904	\$ 155,009	\$ 165	\$ 1,409,972
Taxes Receivable - Current		1,263	105	309		2,296
Taxes Receivable - Delinquent		297	25	73		540
Special Assessments Receivable						
Delinquent	3,895	659		570		7,090
Noncurrent	188,635	247,728	136,905	285,448	200,380	2,085,614
<b>TOTAL ASSETS</b>	<u>\$ 225,253</u>	<u>\$ 332,902</u>	<u>\$ 332,939</u>	<u>\$ 441,409</u>	<u>\$ 200,545</u>	<u>\$ 3,505,512</u>
<b>DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>						
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue	\$ 192,530	\$ 248,684	\$ 136,930	\$ 286,091	\$ 200,380	\$ 2,093,244
Total Deferred Inflows of Resources	<u>192,530</u>	<u>248,684</u>	<u>136,930</u>	<u>286,091</u>	<u>200,380</u>	<u>2,093,244</u>
<b>FUND BALANCE</b>						
Restricted for Debt Service	32,723	84,218	196,009	155,318	165	1,412,268
Total Fund Balance	<u>32,723</u>	<u>84,218</u>	<u>196,009</u>	<u>155,318</u>	<u>165</u>	<u>1,412,268</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 225,253</u>	<u>\$ 332,902</u>	<u>\$ 332,939</u>	<u>\$ 441,409</u>	<u>\$ 200,545</u>	<u>\$ 3,505,512</u>

**CITY OF PERHAM, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR DEBT SERVICE FUNDS  
 YEAR ENDED DECEMBER 31, 2016**

**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>
<b>REVENUES</b>						
Property Taxes	\$ 82	\$ 60,345	\$ 28,081	\$ 115	\$ 128	\$
Special Assessments	73,048	41,632	68,554		8,627	
Intergovernmental						
Federal						
Miscellaneous						
Interest on Investments	492	2,005	533	15	747	329
Rent						71,783
Total Revenues	<u>73,622</u>	<u>103,982</u>	<u>97,168</u>	<u>130</u>	<u>9,502</u>	<u>72,112</u>
<b>EXPENDITURES</b>						
Principal	115,000	100,000	92,000		12,900	65,000
Interest	14,521	23,300	27,390		10,601	7,400
Fees	225	225	450			450
Total Expenditures	<u>129,746</u>	<u>123,525</u>	<u>119,840</u>	<u></u>	<u>23,501</u>	<u>72,850</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(56,124)</u>	<u>(19,543)</u>	<u>(22,672)</u>	<u>130</u>	<u>(13,999)</u>	<u>(738)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	50,000	32,314	24,663		45,000	
Transfers Out				(1,936)		
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>32,314</u>	<u>24,663</u>	<u>(1,936)</u>	<u>45,000</u>	<u></u>
NET CHANGE IN FUND BALANCES	(6,124)	12,771	1,991	(1,806)	31,001	(738)
FUND BALANCE JANUARY 1	<u>103,266</u>	<u>409,079</u>	<u>109,917</u>	<u>1,806</u>	<u>215,713</u>	<u>66,959</u>
FUND BALANCE DECEMBER 31	<u>\$ 97,142</u>	<u>\$ 421,850</u>	<u>\$ 111,908</u>	<u>\$</u>	<u>\$ 246,714</u>	<u>\$ 66,221</u>

cont.

**CITY OF PERHAM, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR DEBT SERVICE FUNDS  
 YEAR ENDED DECEMBER 31, 2016**

**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>Victory Estates G.O. Improvement Bonds</u>	<u>Total Nonmajor Debt Service Funds Exhibit B-2</u>
<b>REVENUES</b>						
Property Taxes	\$ 179	\$ 180,907	\$ 15,057	\$ 44,342	\$	\$ 329,236
Special Assessments	37,258	58,785	25,538	54,400	3,171	371,013
Intergovernmental						
Federal			13,876			13,876
Miscellaneous						
Interest on Investments	315	1,363	1,007	669		7,475
Rent						71,783
Total Revenues	<u>37,752</u>	<u>241,055</u>	<u>55,478</u>	<u>99,411</u>	<u>3,171</u>	<u>793,383</u>
<b>EXPENDITURES</b>						
Principal	80,000	430,000	35,000	70,000		999,900
Interest	2,099	25,860	42,538	33,345	3,006	190,060
Fees	225	495	450	425		2,945
Total Expenditures	<u>82,324</u>	<u>456,355</u>	<u>77,988</u>	<u>103,770</u>	<u>3,006</u>	<u>1,192,905</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(44,572)</u>	<u>(215,300)</u>	<u>(22,510)</u>	<u>(4,359)</u>	<u>165</u>	<u>(399,522)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	35,000	93,000	17,400	20,505		317,882
Transfers Out						(1,936)
Total Other Financing Sources (Uses)	<u>35,000</u>	<u>93,000</u>	<u>17,400</u>	<u>20,505</u>		<u>315,946</u>
NET CHANGE IN FUND BALANCES	(9,572)	(122,300)	(5,110)	16,146	165	(83,576)
FUND BALANCE JANUARY 1	<u>42,295</u>	<u>206,518</u>	<u>201,119</u>	<u>139,172</u>		<u>1,495,844</u>
FUND BALANCE DECEMBER 31	<u>\$ 32,723</u>	<u>\$ 84,218</u>	<u>\$ 196,009</u>	<u>\$ 155,318</u>	<u>\$ 165</u>	<u>\$ 1,412,268</u>

**CITY OF PERHAM, MINNESOTA  
 COMBINING BLANCE SHEET  
 NONMAJOR CAPITAL PROJECT FUNDS  
 DECEMBER 31, 2016**

**Exhibit C-5**

	<u>Interchange Project</u>	<u>2015 Improvement Project</u>	<u>Victory Estates</u>	<u>2017 Improvement Project</u>	<u>Total Nonmajor Capital Projects Funds Exhibit B-1</u>
<b>ASSETS</b>					
Cash and Investments	\$ _____	\$ 184,764	\$ _____	\$ _____	\$ 184,764
<b>TOTAL ASSETS</b>	<u>\$ _____</u>	<u>\$ 184,764</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 184,764</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ _____	\$ 211,152	\$ _____	\$ 41,000	\$ 252,152
Due to Other Funds	1,646	_____	_____	43,879	45,525
Total Liabilities	<u>1,646</u>	<u>211,152</u>	<u>_____</u>	<u>84,879</u>	<u>297,677</u>
<b>FUND BALANCE</b>					
Unassigned	<u>(1,646)</u>	<u>(26,388)</u>	<u>_____</u>	<u>(84,879)</u>	<u>(112,913)</u>
Total Fund Balance	<u>(1,646)</u>	<u>(26,388)</u>	<u>_____</u>	<u>(84,879)</u>	<u>(112,913)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ _____</u>	<u>\$ 184,764</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 184,764</u>

**CITY OF PERHAM, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR CAPITAL PROJECT FUNDS  
 YEAR ENDED DECEMBER 31, 2016**

**Exhibit C-6**

	<u>Interchange Project</u>	<u>2015 Improvement Project</u>	<u>Victory Estates</u>	<u>2017 Improvement Project</u>	<u>Total Nonmajor Capital Projects Funds Exhibit B-2</u>
<b>EXPENDITURES</b>					
Capital Outlay					
Public Works	\$	18,245	\$ 3,956	\$ 84,879	\$ 107,080
Total Expenditures	<u>\$</u>	<u>18,245</u>	<u>\$ 3,956</u>	<u>\$ 84,879</u>	<u>\$ 107,080</u>
<b>OTHER FINANCING SOURCES</b>					
Debt Issued		205,250			205,250
Transfers In			16,132		16,132
Total Other Financing Sources		<u>205,250</u>	<u>16,132</u>		<u>221,382</u>
<b>NET CHANGE IN FUND BALANCES</b>		187,005	12,176	(84,879)	114,302
FUND BALANCE, JANUARY 1	<u>(1,646)</u>	<u>(213,393)</u>	<u>(12,176)</u>		<u>(227,215)</u>
FUND BALANCE, DECEMBER 31	<u>\$ (1,646)</u>	<u>\$ (26,388)</u>	<u>\$</u>	<u>\$ (84,879)</u>	<u>\$ (112,913)</u>

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

	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Long Term Debt Issued</u>	<u>Sale of Capital Assets</u>	<u>Ending Balance</u>
Primary Government Governmental Funds								
General	\$ 857,037	\$ 1,423,902	\$ 1,713,038	\$ 300,787			\$ 3,000	\$ 871,688
Special Revenue								
Library	75,073	205,048	202,256					77,865
Fire and Rescue	3,031	331,273	258,483					75,821
Economic Development								
Revolving Loan	1,931,509	153,904	177,190	21,000			24,000	1,953,223
CDBG	20,751		19,399					1,352
TIF Districts	372,993	866,512	464,995		260,314			514,196
Storm Sewer	73,064	45,806	16,106					102,764
Lodging Tax	30,194	41,681	45,000					26,875
Debt Service								
1996 IRP Loan Program	2,086,418	78,961	73,001		21,000			2,071,378
2007 G.O. Improvement Bonds	409,079	103,982	123,525	32,314				421,850
1999 EDA Safety Building Bonds	1,806	130			1,936			
1999 Industrial Park Improvement	215,713	9,502	23,501	45,000				246,714
Golf Course	66,959	72,112	72,850					66,221
2005 G.O. Improvement Bonds	103,266	73,622	129,746	50,000				97,142
2006 G.O. Bonds	42,295	37,752	82,324	35,000				32,723
2009 G.O. Improvement Bonds	126,081	183,101	1,010,923	20,000		806,278		124,537
2009B G.O. Refunding Bonds	206,518	241,055	456,355	93,000				84,218
2010A G.O. Improvement Bonds	201,119	55,478	77,988	17,400				196,009
2011A G.O. Improvement Bonds	109,917	97,168	119,840	24,663				111,908
2013 G.O. Improvement Bonds	139,172	99,411	103,770	20,505				155,318
2015 G.O. Improvement Bonds	200,717	214,479	148,195	99,467				366,468
Victory Estates Improvement		3,171	3,006					165
Capital Projects								
Permanent Improvement	1,222,371	1,510,807	2,216,313	319,332	71,537		60,000	824,660
Interchange Project	(1,646)							(1,646)
2015 Improvement Project	(213,393)		18,245			205,250		(26,388)
Victory Estates	(12,176)		3,956	16,132				
2017 Improvement Project			84,879					(84,879)
Permanent Fund	54,140	3,504	3,518					54,126
<b>Total Governmental Funds</b>	<b>8,322,008</b>	<b>5,852,361</b>	<b>7,648,402</b>	<b>1,094,600</b>	<b>354,787</b>	<b>1,011,528</b>	<b>87,000</b>	<b>8,364,308</b>

cont.

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

	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Long Term Debt Issued</u>	<u>Sale of Capital Assets</u>	<u>Ending Balance</u>
Proprietary Funds								
Municipal Liquor	1,681,248	3,341,255	2,927,738		269,250			1,825,515
Gas	2,475,302	6,372,612	5,652,063		157,442			3,038,409
Sewer and Wastewater	8,572,156	1,282,393	1,082,120		108,229			8,664,200
Water	5,199,485	881,990	545,702		204,892			5,330,881
Recycling	115,375	79,531	76,591					118,315
<b>Total Proprietary Funds</b>	<u>18,043,566</u>	<u>11,957,781</u>	<u>10,284,214</u>		<u>739,813</u>			<u>18,977,320</u>
<b>Total Primary Government</b>	<u>\$ 26,365,574</u>	<u>\$ 17,810,142</u>	<u>\$ 17,932,616</u>	<u>\$ 1,094,600</u>	<u>\$ 1,094,600</u>	<u>\$ 1,011,528</u>	<u>\$ 87,000</u>	<u>\$ 27,341,628</u>
Component Units								
Perham Area Community Center	\$ 1,990,032	\$ 951,633	\$ 949,943	\$	\$	\$	\$	\$ 1,991,722
Perham Golf Course	340,408	954,709	1,089,975					205,142
<b>Total Component Units</b>	<u>\$ 2,330,440</u>	<u>\$ 1,906,342</u>	<u>\$ 2,039,918</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,196,864</u>

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

BOND INDEBTEDNESS	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2015	Issued 2016	Retired 2016	Balance 12/31/2016	Principal 2017	Interest 2017
<b>General Obligation Bonds</b>										
G.O. Improvement Bonds of 1999	4.375	12/21/99	1-1-2017/29	\$ 382,000	\$ 242,300	\$	\$ 12,900	\$ 229,400	\$ 13,500	\$ 10,036
G.O. Improvement Bonds of 2009A		09/01/09		1,735,000	955,000		955,000			
G.O. Improvement Bonds of 2010A	4.0 - 5.5	07/01/10	2-1-2017/26	1,030,000	885,000		35,000	850,000	40,000	41,038
G.O. Refunding & Crossover, 2009B	3.0 - 3.2	11/01/09	2-1-2017/19	505,000	235,000		55,000	180,000	60,000	5,550
G.O. Refunding & Crossover, 2009B	3.0 - 3.2	11/01/09	2-1-2017/19	3,045,000	1,095,000		430,000	665,000	440,000	12,735
G.O. Refunding & Crossover, 2012	0.85 - 2.45	03/14/12	2-1-2017/26	1,270,000	1,040,000		115,000	925,000	120,000	13,638
G.O. Refunding & Crossover, 2012	0.85 - 2.45	03/14/12	2-1-2017/26	660,000	575,000		80,000	495,000	80,000	2,189
G.O. Refunding & Crossover, 2012	0.85 - 2.45	03/14/12	2-1-2017/26	190,000	170,000		20,000	150,000	20,000	6,059
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2017/26	337,745	262,000		22,000	240,000	23,000	3,360
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2017/26	148,475	115,000		10,000	105,000	10,000	1,461
G.O. Improvement Bonds of 2011A	2.0-3.4	09/01/11	2-1-2017/27	990,000	820,000		60,000	760,000	60,000	20,923
G.O. Improvement Bonds 2013	3.0-3.8	10/02/13	2-1-2017/29	1,115,000	1,060,000		70,000	990,000	70,000	31,245
G.O. Bonds 2014 Crossover Refunded 2007A	3.0-4.0	09/10/14	2-1-2017/23	760,000	760,000		100,000	660,000	100,000	20,300
G.O. Improvement Bonds 2015A	2.25-3.1	07/21/15	2-1-2017/31	820,000	820,000			820,000	45,000	20,249
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	95,000	37,519
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	160,000	34,035
G.O. Improvement Bonds Refunding, Series 2016A	2-0-2.5	01/07/16	2-1-2017/25	790,000		790,000		790,000	95,000	17,000
<b>Total</b>					<b>12,149,300</b>	<b>790,000</b>	<b>1,964,900</b>	<b>10,974,400</b>	<b>1,431,500</b>	<b>277,337</b>
<b>General Obligation Revenue Bonds</b>										
G.O. Utility Revenue Bond, 2008A		11/01/08		860,000	575,000		575,000			
G.O. Revenue Bonds - PFA	2.8	11/19/99	8-20-2017/19	607,436	154,000		37,000	117,000	38,000	3,264
G.O. Bonds (MPFA)	1.0	11/16/12	8-20-2017/42	3,014,667	2,797,000		91,000	2,706,000	92,000	27,060
G.O. Bonds (MPFA)	2.7	01/28/09	8-20-2017/28	2,422,209	1,771,000		115,000	1,656,000	118,000	45,424
G.O. Improvement Bonds 2012B	1.9 - 2.4	03/28/12	11-1-2017/20	835,000	385,000		100,000	285,000	65,000	6,165
G.O. Bonds 2014 Crossover Refunded 2008A	3.0-4.0	09/10/14	2-1-2017/24	510,000	510,000			510,000	55,000	16,525
G.O. Bonds (MPFA) Clean Water	1.0	09/23/15	8-20-2017/35	895,817	895,817	107,290	47,522	955,585	54,000	10,041
G.O. Bonds (MPFA) Drinking Water	1.0	09/23/15	8-20-2017/35	817,920	817,920	97,960	45,233	870,647	50,000	9,159
<b>Total</b>					<b>7,905,737</b>	<b>205,250</b>	<b>1,010,755</b>	<b>7,100,232</b>	<b>472,000</b>	<b>117,638</b>
<b>Revenue Bonds</b>										
Gas Utility Refunding Bond 2009C	3.5 - 4.7	11/17/09	6-1-2017/29	4,060,000	3,140,000		170,000	2,970,000	180,000	125,773
<b>Total</b>					<b>3,140,000</b>		<b>170,000</b>	<b>2,970,000</b>	<b>180,000</b>	<b>125,773</b>
<b>Total Bonds</b>					<b>23,195,037</b>	<b>995,250</b>	<b>3,145,655</b>	<b>21,044,632</b>	<b>2,083,500</b>	<b>520,748</b>
<b>Loans</b>										
U.S. Department of Agriculture	1.0	11/28/94	11-28-2017/24	1,000,000	349,667		37,602	312,065	37,977	3,146
U.S. Department of Agriculture	1.0	04/24/98	4-24-2017/28	775,000	386,628		27,988	358,640	28,271	3,605
United Community Bank - Golf Course	3.5	11/15/04	10-15-2017/21	300,000	159,750		20,000	139,750	20,000	4,900
Contract for Deed	1.3	07/01/11	7-1-2017/18	312,000	119,264		39,225	80,039	39,750	1,000
<b>Total</b>					<b>1,015,309</b>		<b>124,815</b>	<b>890,494</b>	<b>125,998</b>	<b>12,651</b>
<b>Other Long-term Debt</b>										
Lease-Purchase Agreement	2.75	11/01/11	4/1/2017	777,138	285,597		140,842	144,755	144,755	2,497
<b>Total Primary Government Indebtedness</b>					<b>24,495,943</b>	<b>995,250</b>	<b>3,411,312</b>	<b>22,079,881</b>	<b>2,354,253</b>	<b>535,896</b>
<b>Loans Payable</b>										
Golf Course	5.0	04/22/15	10-01-2017/19	95,040	78,699		18,182	60,517	19,103	2,838
VGM Financial Services	0.0	04/28/12	11-15-2017/18	93,136	48,946	29,474	18,624	59,796	39,292	
<b>Total Component Unit Indebtedness</b>					<b>127,645</b>	<b>29,474</b>	<b>36,806</b>	<b>120,313</b>	<b>58,395</b>	<b>2,838</b>
<b>Total Indebtedness</b>					<b>\$ 24,623,588</b>	<b>\$ 1,024,724</b>	<b>\$ 3,448,118</b>	<b>\$ 22,200,194</b>	<b>\$ 2,412,648</b>	<b>\$ 538,734</b>



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, 2016, and the related notes to the financial statements, and have issued our report thereon dated May 24, 2017. 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

May 24, 2017

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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, 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, 2016, and the related notes to the financial statements, which collectively comprise the City of Perham, Minnesota's basic financial statements and have issued our report thereon dated May 24, 2017. We did not express an opinion on the discretely presented component units because we were not engaged to audit the discretely presented component units. 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 as item 2016-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

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

### **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 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**

May 24, 2017

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

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**2016-001 FINDING**

Criteria

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

Condition

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

View of Responsible Officials and Planned Corrective Action

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

**CITY OF PERHAM, MINNESOTA  
CORRECTIVE ACTION PLAN  
DECEMBER 31, 2016**

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**2016-001 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