

**CITY OF PERHAM  
PERHAM, MINNESOTA**

AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

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CITY OF PERHAM, MINNESOTA  
CITY OFFICIALS  
YEAR ENDED DECEMBER 31, 2017

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Mayor	Timothy Meehl
Councilman	James Johnson
Councilman	Fred Lehmkuhl
Councilman	Brad Schmidt
Councilman	Eric Spencer
City Manager	Jonathan Smith
Finance Officer	Patti Stokke



## 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, 2017, 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, 2017, 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, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

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

May 24, 2018

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CITY OF PERHAM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017

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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, 2017. Please read it in conjunction with the City's financial statements, which immediately follow this section.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$47,355,531 (net position). Of this amount, \$7,219,403 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 \$873,608, or 54% of the total general fund expenditures, an increase of \$1,920 over the year ended 2016.

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

CITY OF PERHAM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017

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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, 2017 Improvement Project, 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 following the required supplementary information on budgetary comparisons, net pension liability schedules, and notes to the required supplementary information.

**CITY OF PERHAM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

**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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$47,355,531 at the close of the most recent fiscal year.

**Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 13,021,578	\$ 13,415,033	\$ 6,758,960	\$ 6,420,412	\$ 19,780,538	\$ 19,835,445
Capital Assets	28,247,967	26,662,218	24,863,531	24,376,813	53,111,498	51,039,031
Total Assets	<u>41,269,545</u>	<u>40,077,251</u>	<u>31,622,491</u>	<u>30,797,225</u>	<u>72,892,036</u>	<u>70,874,476</u>
Deferred Outflows of Resources	<u>745,488</u>	<u>1,169,574</u>	<u>169,861</u>	<u>311,316</u>	<u>915,349</u>	<u>1,480,890</u>
Long-term Liabilities	14,079,590	13,904,290	9,946,353	10,978,008	24,025,943	24,882,298
Other Liabilities	535,447	847,878	950,984	1,066,618	1,486,431	1,914,496
Total Liabilities	<u>14,615,037</u>	<u>14,752,168</u>	<u>10,897,337</u>	<u>12,044,626</u>	<u>25,512,374</u>	<u>26,796,794</u>
Deferred Inflows of Resources	<u>821,035</u>	<u>232,785</u>	<u>118,445</u>	<u>86,595</u>	<u>939,480</u>	<u>319,380</u>
<b>Net Position</b>						
Net Investment in Capital						
Assets	15,804,462	15,420,550	15,620,130	14,727,171	31,424,592	30,147,721
Restricted	7,927,014	7,546,821	874,273	752,069	8,801,287	8,298,890
Unrestricted	2,847,485	3,294,501	4,282,167	3,498,080	7,129,652	6,792,581
Total Net Position	<u>\$ 26,578,961</u>	<u>\$ 26,261,872</u>	<u>\$ 20,776,570</u>	<u>\$ 18,977,320</u>	<u>\$ 47,355,531</u>	<u>\$ 45,239,192</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, 2017

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for Services	\$ 358,211	\$ 449,985	\$ 12,201,552	\$ 11,782,346	\$ 12,559,763	\$ 12,232,331
Operating Grants and Contributions	1,163,467	431,785			1,163,467	431,785
Capital Grants and Contributions	820,877	1,772,453			820,877	1,772,453
General Revenues						
Taxes	2,272,112	2,219,150			2,272,112	2,219,150
Unrestricted State Aid	605,039	603,831	1,883	1,883	606,922	605,714
Unrestricted Investment Earnings	198,882	164,845	40,785	36,040	239,667	200,885
Gain on Sale of Capital Assets	32,214	81,017	30,169	137,512	62,383	218,529
Other General Revenue	68,752	184,165			68,752	184,165
Total Revenues	<u>5,519,554</u>	<u>5,907,231</u>	<u>12,274,389</u>	<u>11,957,781</u>	<u>17,793,943</u>	<u>17,865,012</u>
Expenses						
General Government	320,651	461,324			320,651	461,324
Public Safety	1,057,282	1,177,509			1,057,282	1,177,509
Public Works	1,021,855	939,695			1,021,855	939,695
Culture and Recreation	785,614	719,519			785,614	719,519
Economic Development	1,367,639	717,617			1,367,639	717,617
Airport	97,346	114,377			97,346	114,377
Interest on Long-term Debt	301,725	327,891			301,725	327,891
Municipal Liquor			2,993,640	2,927,738	2,993,640	2,927,738
Gas			5,876,485	5,652,063	5,876,485	5,652,063
Sewer and Wastewater			1,115,170	1,082,120	1,115,170	1,082,120
Water			654,119	545,702	654,119	545,702
Recycling			86,078	76,591	86,078	76,591
Total Expenses	<u>4,952,112</u>	<u>4,457,932</u>	<u>10,725,492</u>	<u>10,284,214</u>	<u>15,677,604</u>	<u>14,742,146</u>
Change in Net Position Before Transfers	567,442	1,449,299	1,548,897	1,673,567	2,116,339	3,122,866
Transfers	<u>(250,353)</u>	<u>739,813</u>	<u>250,353</u>	<u>(739,813)</u>		
Change in Net Position	<u>317,089</u>	<u>2,189,112</u>	<u>1,799,250</u>	<u>933,754</u>	<u>2,116,339</u>	<u>3,122,866</u>
Net Position - January 1	<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>
Net Position - December 31	<u>\$ 26,578,961</u>	<u>\$ 26,261,872</u>	<u>\$ 20,776,570</u>	<u>\$ 18,977,320</u>	<u>\$ 47,355,531</u>	<u>\$ 45,239,192</u>

**Governmental activities.** Governmental activities increased the City's net position by \$317,089. 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, 2017

**Business-type activities.** Business-type activities increased the City's net position by \$1,799,250. Key elements of this increase are as follows:

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

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

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

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

**Major Funds**

	Fund Balance / Net Position		Increase	Percentage
	12/31/2017	12/31/2016	(Decrease)	Increase (Decrease)
<b>Governmental Funds</b>				
General Fund	\$ 873,608	\$ 871,688	\$ 1,920	0%
Economic Development				
Revolving Loan	1,997,085	1,953,223	43,862	2%
1996 IRP Loan Program	2,040,034	2,071,378	(31,344)	-2%
2017 Improvement Project	130,049	(84,879)	214,928	-253%
2015 Improvement Bonds	406,520	366,468	40,052	11%
Permanent Improvement	200,440	824,660	(624,220)	-76%
<b>Proprietary Funds</b>				
Gas	3,613,568	3,038,409	575,159	19%
Sewer and Wastewater	9,173,903	8,664,200	509,703	6%
Water	5,858,970	5,330,881	528,089	10%
Municipal Liquor	2,016,834	1,825,515	191,319	10%

**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.

CITY OF PERHAM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017

**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, 2017, amounts to \$53,111,498 (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			
	2017	2016	2017	2016	2017	2016
Land	\$ 530,246	\$ 534,032	\$ 1,517,234	\$ 1,524,434	\$ 2,047,480	\$ 2,058,466
Construction In Process	25,194	3,745,610			25,194	3,745,610
Buildings	6,934,985	6,000,263	768,957	793,835	7,703,942	6,794,098
Improvements Other Than Buildings	18,579,849	14,101,565	20,172,992	19,532,153	38,752,841	33,633,718
Machinery and Equipment	2,177,693	2,280,748	2,404,348	2,526,391	4,582,041	4,807,139
<b>Total</b>	<b>\$ 28,247,967</b>	<b>\$ 26,662,218</b>	<b>\$ 24,863,531</b>	<b>\$ 24,376,813</b>	<b>\$ 53,111,498</b>	<b>\$ 51,039,031</b>

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

- Street improvement projects
- Gas line extensions

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 \$22,111,303 in bonds and other long-term obligations.

**Outstanding Debt**

	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 10,227,000	\$ 9,064,400	\$ 1,670,000	\$ 1,910,000	\$ 11,897,000	\$ 10,974,400
General Obligation Revenue Bonds	2,003,784	2,111,232	4,686,000	4,989,000	6,689,784	7,100,232
Revenue Bonds			2,790,000	2,970,000	2,790,000	2,970,000
Loans Payable	694,206	810,455	40,313	80,039	734,519	890,494
Lease/Purchase Agreement				144,755		144,755
<b>Total</b>	<b>\$ 12,924,990</b>	<b>\$ 11,986,087</b>	<b>\$ 9,186,313</b>	<b>\$ 10,093,794</b>	<b>\$ 22,111,303</b>	<b>\$ 22,079,881</b>

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

**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.

**CITY OF PERHAM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

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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 2017 building permits showed significant additions. Residential permits totaled over \$4,384,119 with major developments and housing. Commercial and industrial permits totaled over \$4,354,855 with commercial and industrial additions leading to an increase of job growth. Job growth is steadily increasing. Property valuations have increased. 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, 2017

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	\$ 6,892,318	\$ 4,270,362	\$ 11,162,680	\$ 555,821	\$ 12,211
Receivables					
Accounts (Net of Allowance)	26,848	925,273	952,121	48,216	7,269
Interest Receivable	28,207		28,207		
Current Taxes	10,880		10,880		
Delinquent Taxes	8,944		8,944		
Special Assessments	4,351,953	1,083	4,353,036		
Notes Receivable (Net of Allowance)	1,844,656		1,844,656		
Internal Balances	(338,495)	338,495			
Due from Other Governments	5,308		5,308		
Inventory		349,474	349,474	2,420	66,313
Restricted Cash:					
Bond Covenants		874,273	874,273		
Deferred Charges				1,299	
Net Pension Asset - VFD	190,959		190,959		
Capital Assets					
Land	530,246	1,517,234	2,047,480	41,130	
Construction In Process	25,194		25,194		
Buildings	9,321,057	1,002,684	10,323,741	3,121,403	
Improvements Other than Buildings	24,734,494	29,836,036	54,570,530		453,896
Machinery and Equipment	4,252,732	3,465,751	7,718,483	739,859	1,158,475
Less: Accumulated Depreciation	(10,615,756)	(10,958,174)	(21,573,930)	(2,375,627)	(929,966)
Total Capital Assets, Net of Depreciation	28,247,967	24,863,531	53,111,498	1,526,765	682,405
<b>TOTAL ASSETS</b>	<b>41,269,545</b>	<b>31,622,491</b>	<b>72,892,036</b>	<b>2,134,521</b>	<b>768,198</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Cost Sharing Defined Benefit Pension Plan	745,488	169,861	915,349		
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>745,488</b>	<b>169,861</b>	<b>915,349</b>		
<b>LIABILITIES</b>					
Accounts Payable	341,211	830,751	1,171,962	37,649	18,394
Accrued Payroll	1,823	852	2,675	32,165	9,093
Payroll Withholding	66,773		66,773		
Revolving Line of Credit					348,600
Consumer Deposits		57,200	57,200		
Unearned Revenue		5,466	5,466	71,400	1,025
Accrued Interest Payable	125,640	56,715	182,355		4,430
Noncurrent Liabilities					
Net Pension Liability	844,698	631,371	1,476,069		
Due Within One Year	1,174,816	823,228	1,998,044		37,603
Due in More than One Year	12,060,076	8,491,754	20,551,830		186,080
<b>TOTAL LIABILITIES</b>	<b>14,615,037</b>	<b>10,897,337</b>	<b>25,512,374</b>	<b>141,214</b>	<b>605,225</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Cost Sharing Defined Benefit Pension Plan	821,035	118,445	939,480		
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>821,035</b>	<b>118,445</b>	<b>939,480</b>		
<b>NET POSITION</b>					
Net Investment in Capital Assets	15,804,462	15,620,130	31,424,592	1,526,765	458,722
Restricted for:					
Park	50,000		50,000		
TIF Districts	689,668		689,668		
Marketing	32,154		32,154		
Debt Service	7,155,192		7,155,192		
Bond Covenants		874,273	874,273		
Unrestricted	2,847,485	4,282,167	7,129,652	466,542	(295,749)
<b>TOTAL NET POSITION</b>	<b>\$ 26,578,961</b>	<b>\$ 20,776,570</b>	<b>\$ 47,355,531</b>	<b>\$ 1,993,307</b>	<b>\$ 162,973</b>

See Notes to the Financial Statements

CITY OF PERHAM, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017

Exhibit A-2

Functions/Programs Primary Government:	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units (UNAUDITED)	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Community Center	Perham Golf Course
					Governmental Activities	Business-type Activities			
Governmental Activities:									
General Government	\$ 320,651	\$ 139,155	\$ 146,293	\$ 46,886	\$ (35,203)	\$ (35,203)	\$	\$	\$
Public Safety	1,057,282	60,489	210,532	773,991	(739,395)	(739,395)			
Public Works	1,021,855	45,789	3,784		(198,291)	(198,291)			
Culture and Recreation	785,614	16,703	45,282		(723,629)	(723,629)			
Economic Development	1,367,639	33,334	718,387		(615,918)	(615,918)			
Airport	97,346	62,761	25,817		(8,768)	(8,768)			
Interest on Long-term Debt	301,725		13,372		(288,353)*	(288,353)			
Total Governmental Activities	4,952,112	358,211	1,163,467	820,877	(2,609,557)	(2,609,557)			
Business-type Activities:									
Municipal Liquor	2,993,640	3,377,055			383,415	383,415			
Gas	5,876,485	6,643,742			767,257	767,257			
Sewer and Wastewater	1,115,170	1,343,840			228,670	228,670			
Water	654,119	756,431			102,312	102,312			
Recycling	86,078	80,484			(5,594)	(5,594)			
Total Business-type Activities	10,725,492	12,201,552			1,476,060	1,476,060			
Total Primary Government	\$ 15,677,604	\$ 12,559,763	\$ 1,163,467	\$ 820,877	\$ (2,609,557)	\$ (1,133,497)			
Component Unit:									
Perham Area Community Center	\$ 1,036,988	\$ 962,314	\$ 86,517	\$ 75,006			332		(42,169)
Perham Golf Course	1,515,305	1,386,619	86,517	75,006			332		(42,169)
Total Component Units	\$ 2,552,293	\$ 2,348,933	\$ 86,517	\$ 75,006					
General Revenues:									
Property Taxes					2,156,367	2,156,367			
Hotel/Motel Taxes					50,046	50,046			
Taxes Franchise Fees					65,699	65,699			
Unrestricted State Aid					605,039	606,922			
Unrestricted Investment Earnings					1,883	1,883		1,253	
Gain on Sale of Capital Assets					198,882	239,667			
Other General Revenue					32,214	52,383			
Transfers					68,752	68,752			
Total General Revenues and Transfers					(250,353)	250,353		1,253	
Change in Net Position					2,926,646	323,190	3,249,836		
Net Position - January 1					317,089	1,799,250	2,116,339	1,585	(42,169)
Net Position - December 31					26,261,872	18,977,320	45,239,192	1,991,722	205,142
					\$ 26,578,961	\$ 20,776,570	\$ 47,355,531	\$ 1,993,307	\$ 162,973

See Notes to the Financial Statements

**CITY OF PERHAM, MINNESOTA  
BALANCE SHEET – GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

**Exhibit A-3**

	General	Economic Development Revolving Loan	1996 IRP Loan Program	2017 Improvement Project	2015 G.O. Improve- ment Bonds	Permanent Improvement	Total Nonmajor Funds	Total Govern- mental Funds
<b>ASSETS</b>								
Cash and Investments	\$ 923,984	\$ 1,051,472	\$ 1,146,983	\$ 231,884	\$ 405,778	\$ 546,211	\$ 2,586,006	\$ 6,892,318
Receivables								
Accounts	8,860						17,988	26,848
Interest	28,207							28,207
Tax								
Current	3,044	562			742	1,412	5,120	10,880
Delinquent	180	33			44	83	8,604	8,944
Special Assessments								
Delinquent	43						6,816	6,859
Noncurrent	2,545				896,617	213,059	3,232,873	4,345,094
Notes Receivable		950,341	894,315					1,844,656
Due from Other Funds	34,631							34,631
Due from Other Governments	5,308							5,308
<b>TOTAL ASSETS</b>	<b>\$ 1,006,802</b>	<b>\$ 2,002,408</b>	<b>\$ 2,041,298</b>	<b>\$ 231,884</b>	<b>\$ 1,303,181</b>	<b>\$ 760,765</b>	<b>\$ 5,857,407</b>	<b>\$ 13,203,745</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>								
<b>LIABILITIES</b>								
Accounts Payable	\$ 61,924	\$ 5,290	\$ 1,264	\$ 101,835	\$	\$ 8,688	\$ 162,210	\$ 341,211
Accrued Payroll	1,729						94	1,823
Payroll Withholding	66,773							66,773
Due to Other Funds						338,495	34,631	373,126
<b>Total Liabilities</b>	<b>130,426</b>	<b>5,290</b>	<b>1,264</b>	<b>101,835</b>		<b>347,183</b>	<b>196,935</b>	<b>782,933</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Unavailable Revenue	2,768	33			896,661	213,142	3,248,293	4,360,897
<b>Total Deferred Inflows of Resources</b>	<b>2,768</b>	<b>33</b>			<b>896,661</b>	<b>213,142</b>	<b>3,248,293</b>	<b>4,360,897</b>
<b>FUND BALANCES</b>								
Nonspendable - Endowment							50,000	50,000
Restricted for:								
TIF District							681,210	681,210
Marketing							32,154	32,154
Debt Service			2,040,034		406,520		1,289,409	3,735,963
Committed for:								
Development		218,446						218,446
Revolving Loans		1,778,639						1,778,639
Library							82,355	82,355
Fire and Rescue							191,188	191,188
Storm Sewer							138,279	138,279
Assigned for:								
Golf Course						60,240		60,240
Fairgrounds						120,870		120,870
PACC						18,762		18,762
Park							7,201	7,201
Capital Projects				130,049		568		130,617
Unassigned	873,608						(59,617)	813,991
<b>Total Fund Balances</b>	<b>873,608</b>	<b>1,997,085</b>	<b>2,040,034</b>	<b>130,049</b>	<b>406,520</b>	<b>200,440</b>	<b>2,412,179</b>	<b>8,059,915</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 1,006,802</b>	<b>\$ 2,002,408</b>	<b>\$ 2,041,298</b>	<b>\$ 231,884</b>	<b>\$ 1,303,181</b>	<b>\$ 760,765</b>	<b>\$ 5,857,407</b>	<b>\$ 13,203,745</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, 2017

Exhibit A-4

Total fund balances - governmental funds	\$ 8,059,915
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	38,863,723
Less accumulated depreciation	(10,615,756)
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.	745,488
Long-term liabilities used in governmental activities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(12,230,784)
Net Pension Liability	(844,698)
Other Long-Term Obligations	(694,206)
Issuance Premiums and Discounts (to be amortized as interest expense)	(212,719)
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.	(821,035)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(125,640)
Compensated absence payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.	(97,183)
Net pension assets are not financial resources and, therefore, are not reported in the governmental funds.	190,959
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.	4,360,897
Net position - governmental activities	\$ <u>26,578,961</u>

CITY OF PERHAM, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2017

Exhibit A-5

	General	Economic Development Revolving Loan	1996 IRP Loan Program	2017 Improvement Project	2015 G.O. Improve- ment Bonds	Permanent Improve- ment	Total Nonmajor Funds	Total Govern- mental Funds
<b>REVENUES</b>								
Property Taxes	\$ 359,022	\$ 71,561	\$	\$	\$ 87,482	\$ 167,043	\$ 1,476,451	\$ 2,161,559
Hotel/Motel Tax							50,046	50,046
Special Assessments	2,111				97,163	8,086	537,280	644,640
Licenses and Permits	77,606							77,606
Intergovernmental								
Federal							13,372	13,372
State	673,812	620,247				34,390	99,938	1,428,387
Local	21,922						151,960	173,882
Charges for Services	96,209	19,400					94,664	210,273
Fines and Forfeitures	14,378							14,378
Miscellaneous								
Interest on Loans Receivable		43,304	55,082					98,386
Interest on Investments	25,833	6,161	1,825	3,316	2,019	10,477	18,868	68,499
Rents						38,039		38,039
Contributions	600					127,980	7,599	136,179
Reimbursements	36,062			22			10,214	46,298
Other Receipts	68,447	26,466	5,750			1,451	3,525	105,639
Total Revenues	<u>1,376,002</u>	<u>787,139</u>	<u>62,657</u>	<u>3,338</u>	<u>186,664</u>	<u>387,466</u>	<u>2,463,917</u>	<u>5,267,183</u>
<b>EXPENDITURES</b>								
Current								
General Government	285,418							285,418
Public Safety	634,581						258,260	892,841
Public Works	313,323						10,951	324,274
Culture and Recreation	356,356						199,790	556,146
Economic Development		800,277					555,301	1,355,578
Airport	37,762							37,762
Debt Service								
Principal			66,246		191,799	95,000	1,339,601	1,692,646
Interest			6,755		53,830	30,967	187,070	278,622
Fees					450		3,395	3,845
Capital Outlay								
General Government						5,662		5,662
Public Safety						46,703		46,703
Public Works				2,511,843		95,930	61,847	2,669,620
Culture and Recreation						875,976		875,976
Total Expenditures	<u>1,627,440</u>	<u>800,277</u>	<u>73,001</u>	<u>2,511,843</u>	<u>246,079</u>	<u>1,150,238</u>	<u>2,616,215</u>	<u>9,025,093</u>
REVENUES OVER (UNDER) EXPENDITURES								
	<u>(251,438)</u>	<u>(13,138)</u>	<u>(10,344)</u>	<u>(2,508,505)</u>	<u>(59,415)</u>	<u>(762,772)</u>	<u>(152,298)</u>	<u>(3,757,910)</u>
OTHER FINANCING SOURCES (USES)								
Debt Issued				2,570,000			61,552	2,631,552
Bond Premium				153,433				153,433
Sale of Capital Asset		36,000						36,000
Transfers In	253,358	21,000			99,467	238,072	351,979	963,876
Transfers Out			(21,000)			(99,520)	(210,824)	(331,344)
Total Other Financing Sources (Uses)	<u>253,358</u>	<u>57,000</u>	<u>(21,000)</u>	<u>2,723,433</u>	<u>99,467</u>	<u>138,552</u>	<u>202,707</u>	<u>3,453,517</u>
NET CHANGE IN FUND BALANCES								
	<u>1,920</u>	<u>43,862</u>	<u>(31,344)</u>	<u>214,928</u>	<u>40,052</u>	<u>(624,220)</u>	<u>50,409</u>	<u>(304,393)</u>
FUND BALANCE, JANUARY 1								
	<u>871,688</u>	<u>1,953,223</u>	<u>2,071,378</u>	<u>(84,879)</u>	<u>366,468</u>	<u>824,660</u>	<u>2,361,770</u>	<u>8,364,308</u>
FUND BALANCE, DECEMBER 31								
	<u>\$ 873,608</u>	<u>\$ 1,997,085</u>	<u>\$ 2,040,034</u>	<u>\$ 130,049</u>	<u>\$ 406,520</u>	<u>\$ 200,440</u>	<u>\$ 2,412,179</u>	<u>\$ 8,059,915</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, 2017

Exhibit A-6

Total net change in fund balances - governmental funds	\$ (304,393)
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	2,673,161
Depreciation expense	(1,083,626)
The net effect of various capital asset transactions decreases net position.	(3,786)
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.	(2,631,552)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,692,649
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.	(176,538)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	220,158
Change in deferred outflows and inflows of resources related to net pension liability	(1,012,336)
Change in net pension asset	33,066
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	(1,094)
Net Pension Liability	911,380
Change in net position - governmental activities	<u>\$ 317,089</u>

**CITY OF PERHAM, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2017**

**Exhibit A-7**

	Gas	Sewer and Wastewater	Water	Municipal Liquor	Nonmajor Recycling	Totals
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and Investments	\$ 806,836	\$ 1,021,185	\$ 1,305,523	\$ 1,060,549	\$ 76,269	\$ 4,270,362
Accounts Receivable (Net of Allowance)	724,333	143,954	49,782	299	6,905	925,273
Special Assessments Receivable						
Noncurrent		189	894			1,083
Due from Other Funds			338,495			338,495
Inventory				349,474		349,474
<b>Total Current Assets</b>	<b>1,531,169</b>	<b>1,165,328</b>	<b>1,694,694</b>	<b>1,410,322</b>	<b>83,174</b>	<b>5,884,687</b>
<b>NONCURRENT ASSETS</b>						
Restricted Cash:						
Bond Covenants	308,935	565,338				874,273
Capital Assets						
Land	7,000	779,878	509,593	220,763		1,517,234
Buildings	6,000	45,210		951,474		1,002,684
Machinery and Equipment	2,502,958	695,600	109,983	57,561	99,649	3,465,751
Improvements Other than Buildings	8,458,549	14,024,051	7,353,436			29,836,036
Less: Accumulated Depreciation	(4,036,223)	(4,540,841)	(2,045,864)	(275,969)	(59,277)	(10,958,174)
<b>Total Capital Assets</b>	<b>6,938,284</b>	<b>11,003,898</b>	<b>5,927,148</b>	<b>953,829</b>	<b>40,372</b>	<b>24,863,531</b>
<b>Total Noncurrent Assets</b>	<b>7,247,219</b>	<b>11,569,236</b>	<b>5,927,148</b>	<b>953,829</b>	<b>40,372</b>	<b>25,737,804</b>
<b>Total Assets</b>	<b>8,778,388</b>	<b>12,734,564</b>	<b>7,621,842</b>	<b>2,364,151</b>	<b>123,546</b>	<b>31,622,491</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Cost Sharing Defined Benefit Pension Plan	54,651	31,019	31,019	51,696	1,476	169,861
<b>Total Deferred Outflows of Resources</b>	<b>54,651</b>	<b>31,019</b>	<b>31,019</b>	<b>51,696</b>	<b>1,476</b>	<b>169,861</b>
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES</b>						
Accounts Payable	645,169	20,348	2,760	157,305	5,169	830,751
Accrued Payroll	45	45	45	717		852
Consumer Deposits	55,450		1,750			57,200
Accrued Interest Payable	22,587	17,354	16,774			56,715
Unearned Revenue	5,466					5,466
Current Portion - Long Term Liab.	359,791	291,388	167,552	4,497		823,228
<b>Total Current Liabilities</b>	<b>1,088,508</b>	<b>329,135</b>	<b>188,881</b>	<b>162,519</b>	<b>5,169</b>	<b>1,774,212</b>
<b>NONCURRENT LIABILITIES</b>						
Bonds Payable, Net	4,228,030	3,358,058	1,617,000			9,203,088
Loans Payable		40,313				40,313
Compensated Absences	21,460	18,644	18,644	12,796	37	71,581
Net Pension Liability	203,136	115,294	115,294	192,156	5,491	631,371
Less: Current Portion of Long Term Liabilities	(359,791)	(291,388)	(167,552)	(4,497)		(823,228)
<b>Total Noncurrent Liabilities</b>	<b>4,092,835</b>	<b>3,240,921</b>	<b>1,583,386</b>	<b>200,455</b>	<b>5,528</b>	<b>9,123,125</b>
<b>Total Liabilities</b>	<b>5,181,343</b>	<b>3,570,056</b>	<b>1,772,267</b>	<b>362,974</b>	<b>10,697</b>	<b>10,897,337</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Cost Sharing Defined Benefit Pension Plan	38,128	21,624	21,624	36,039	1,030	118,445
<b>Total Deferred Inflows of Resources</b>	<b>38,128</b>	<b>21,624</b>	<b>21,624</b>	<b>36,039</b>	<b>1,030</b>	<b>118,445</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	2,710,254	7,605,527	4,310,148	953,829	40,372	15,620,130
Restricted for Bond Covenants	308,935	565,338				874,273
Unrestricted	594,379	1,003,038	1,548,822	1,063,005	72,923	4,282,167
<b>Total Net Position</b>	<b>\$ 3,613,568</b>	<b>\$ 9,173,903</b>	<b>\$ 5,858,970</b>	<b>\$ 2,016,834</b>	<b>\$ 113,295</b>	<b>\$ 20,776,570</b>

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, 2017

Exhibit A-8

	Gas	Sewer and Wastewater	Water	Municipal Liquor	Nonmajor Recycling	Totals
<b>OPERATING REVENUES</b>						
Sales	\$ 6,472,533	\$	\$	\$ 3,375,023	\$	\$ 9,847,556
Cost of Sales	4,860,494			2,486,236		7,346,730
Gross Profit	1,612,039			888,787		2,500,826
Charges for Services	22,828	1,289,021	734,179		79,398	2,125,426
Other Services	107,631	49,934	20,807	411	1,019	179,802
Total Operating Revenues	1,742,498	1,338,955	754,986	889,198	80,417	4,806,054
<b>OPERATING EXPENSES</b>						
Purchased Services					57,412	57,412
Professional Fees	85,203	33,860	41,982	16,016	33	177,094
Salaries and Benefits	297,157	158,930	178,396	308,813	5,906	949,202
Utilities	8,445	284,680	36,799	16,999		346,923
Maintenance and Supplies	101,519	112,915	157,081	23,593	13,576	408,684
Insurance	19,799	18,338	5,422	12,144	636	56,339
Depreciation	259,041	419,706	172,001	30,639	5,869	887,256
Other Expenses	88,915	39,045	15,675	95,903	2,646	242,184
Total Operating Expenses	860,079	1,067,474	607,356	504,107	86,078	3,125,094
Income (Loss)	882,419	271,481	147,630	385,091	(5,661)	1,680,960
<b>NONOPERATING REVENUE (EXPENSE)</b>						
Intergovernmental						
State	741	432	370	309	31	1,883
Interest on Investments	9,577	8,637	15,298	6,730	543	40,785
Special Assessments		65	732			797
Refunds and Reimbursements	40,750	4,820	713	1,621	67	47,971
Gain (Loss) on Disposal of Capital Assets			54,054	(23,885)		30,169
Contributions Made				(1,425)		(1,425)
Interest Expense	(155,912)	(47,696)	(46,763)	(1,872)		(252,243)
Total Nonoperating Revenue (Expense)	(104,844)	(33,742)	24,404	(18,522)	641	(132,063)
Income (Loss) before Contributions and Transfers	777,575	237,739	172,034	366,569	(5,020)	1,548,897
Capital Contributions		389,508	493,377			882,885
Transfers Out	(202,416)	(117,544)	(137,322)	(175,250)		(632,532)
Change in Net Position	575,159	509,703	528,089	191,319	(5,020)	1,799,250
TOTAL NET POSITION, JANUARY 1	3,038,409	8,664,200	5,330,881	1,825,515	118,315	18,977,320
TOTAL NET POSITION, DECEMBER 31	\$ 3,613,568	\$ 9,173,903	\$ 5,858,970	\$ 2,016,834	\$ 113,295	\$ 20,776,570

CITY OF PERHAM, MINNESOTA  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED DECEMBER 31, 2017

Exhibit A-9

	Gas	Sewer and Wastewater	Water	Municipal Liquor	Nonmajor Recycling	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from Customers and Users	\$ 6,625,802	\$ 1,366,548	\$ 751,786	\$ 3,379,290	\$ 80,077	\$ 12,203,503
Receipts from Interfund Services Provided	3,482					3,482
Payments to Suppliers	(5,244,930)	(497,880)	(266,013)	(2,664,082)	(73,403)	(8,746,308)
Payments for Interfund Services Used		(191)	(298)	(2,973)		(3,462)
Payments to Employees	(279,831)	(147,108)	(166,574)	(292,174)	(5,366)	(891,053)
Net Cash Provided by Operating Activities	1,104,503	721,369	318,901	420,061	1,308	2,566,142
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Change in Interfund Loans			(129,319)			(129,319)
Nonoperating Revenue	41,493	5,993	564	1,929	97	50,076
Changes in Note Receivable	175,230					175,230
Nonoperating Expense				(1,425)		(1,425)
Transfers to Other Funds	(202,416)	(117,544)	(137,322)	(175,250)		(632,532)
Net Cash Provided (Used) by Noncapital Financing Activities	14,307	(111,551)	(266,077)	(174,746)	97	(537,970)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase of Capital Assets	(515,689)	(410)				(522,174)
Payment of Long-Term Debt	(340,000)	(266,727)	(156,000)	(144,755)	(6,075)	(907,482)
Proceeds from Sale of Capital Assets			61,254			61,254
Interest on Long-Term Debt	(160,236)	(56,218)	(48,692)	(2,496)		(267,642)
Special Assessments Received		65	732			797
Net Cash Used by Capital and Related Financing Activities	(1,015,925)	(323,290)	(142,706)	(147,251)	(6,075)	(1,635,247)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest Earnings	9,577	8,637	15,294	6,730	543	40,781
Net Cash Provided by Investing Activities	9,577	8,637	15,294	6,730	543	40,781
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	112,462	295,165	(74,588)	104,794	(4,127)	433,706
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	1,003,309	1,291,358	1,380,111	955,755	80,396	4,710,929
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	\$ 1,115,771	\$ 1,586,523	\$ 1,305,523	\$ 1,060,549	\$ 76,269	\$ 5,144,635

cont.

CITY OF PERHAM, MINNESOTA  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED DECEMBER 31, 2017

Exhibit A-9

	Gas	Sewer and Wastewater	Water	Municipal Liquor	Nonmajor Recycling	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Income (Loss)	\$ 882,419	\$ 271,481	\$ 147,630	\$ 385,091	\$ (5,661)	\$ 1,680,960
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities						
Depreciation	259,041	419,706	172,001	30,639	5,669	887,256
Change in:						
Accounts Receivable	26,798	27,593	(3,350)	3,856	(340)	54,557
Inventory	45,512	25,830	25,830	43,052	1,231	141,455
Deferred Outflows of Resources	(80,555)	(9,233)	(9,352)	(10,633)	900	(108,873)
Accounts Payable	(30)	35	35	220		260
Accrued Payroll	(2,026)					(2,026)
Unearned Revenue	(1,222)	1,260	1,260	(1,127)	37	208
Compensated Absences	1,500		150			1,650
Other Current Liabilities	(37,201)	(21,114)	(21,114)	(35,190)	(1,005)	(115,624)
Net Pension Liability	10,267	5,811	5,811	9,684	277	31,850
Deferred Inflows of Resources	222,084	449,888	171,271	34,970	6,969	885,182
Total Adjustments	\$ 1,104,503	\$ 721,369	\$ 318,901	\$ 420,061	\$ 1,308	\$ 2,566,142
Net Cash Provided by Operating Activities						
Noncash Capital and Related Financing Capital Contributions	\$	\$ 389,508	\$ 493,377	\$	\$	\$ 882,885

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,

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 *2017 Improvement Project fund* accounts for all activities associated with the 2017 street improvement project.

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.

The government reports the following major proprietary funds:

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

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

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

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

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. Budgets**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund and the special revenue funds. All annual appropriations lapse at fiscal year end.

#### **E. Cash and Cash Equivalents**

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

The City considers cash equivalents to be certificates of deposits, money market funds, and other highly liquid investments with original maturities of three months or less. They are carried at cost.

#### **F. Investments**

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

#### **G. Accounts Receivable**

Receivables are carried at invoice amount less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. The allowance for uncollectible accounts receivable was \$55,500. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

CITY OF PERHAM, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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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 \$3,960,000.

#### 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  
NOTES TO THE FINANCIAL STATEMENTS  
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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 acquisition value 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, 2017, and is expected to be taken by December 31, 2017, is considered a current liability and is accrued in the December 31, 2017, financial statements. Unused vacation leave of 48 hours can be carried over to the succeeding year.

Compensatory time is earned by City employees working hours in excess of their regularly scheduled shift or a forty-hour week. Compensatory time is accrued as a current liability as it is to be used within one year.

All City employees earn sick leave at the rate of one day per month to a maximum of 120 days.

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

#### **N. Long-term Obligations**

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

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

#### **O. Sales Tax**

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

#### P. Pensions

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

#### Q. Deferred Outflows/Inflows of Resources

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

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

#### R. Fund Equity

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

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

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

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

*Assigned* - consists of amounts a government intends to use for a specific purpose. These constraints are established by the Council and/or management. The Council delegates the power to assign fund balances to the City Manager and Finance Officer.

*Unassigned* - consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.

**CITY OF PERHAM, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017**

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, 2017.

2015 Improvement Project	\$26,683
Victory Estates Improvement	5,805
Interchange Project	1,646
2009B G.O. Refunding Bonds	25,483

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	\$ 12,036,953	\$ 555,821	\$ 12,211
	<u>\$ 12,036,953</u>	<u>\$ 555,821</u>	<u>\$ 12,211</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.

CITY OF PERHAM, MINNESOTA  
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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 of December 31, 2017, 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. During the year the City was under collateralized; however, as of December 31, 2017, the City was not exposed to custodial credit risk.

**NOTE 4. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2017, was as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 534,032	\$	\$ 3,786	\$ 530,246
Construction In Process	3,745,610		3,720,416	25,194
Total Capital Assets, Not Being Depreciated	<u>4,279,642</u>		<u>3,724,202</u>	<u>555,440</u>
Capital Assets, Being Depreciated:				
Buildings	8,151,998	1,169,059		9,321,057
Improvements Other Than Buildings	19,634,175	5,100,319		24,734,494
Machinery and Equipment	4,128,533	124,199		4,252,732
Total Capital Assets, Being Depreciated	<u>31,914,706</u>	<u>6,393,577</u>		<u>38,308,283</u>
Less Accumulated Depreciation For:				
Buildings	2,151,735	234,337		2,386,072
Improvements Other Than Buildings	5,532,610	622,035		6,154,645
Machinery and Equipment	1,847,785	227,254		2,075,039
Total Accumulated Depreciation	<u>9,532,130</u>	<u>1,083,626</u>		<u>10,615,756</u>
Total Capital Assets, Being Depreciated, Net	<u>22,382,576</u>	<u>5,309,951</u>		<u>27,692,527</u>
Governmental Activities Capital Assets, Net	<u>\$ 26,662,218</u>	<u>\$ 5,309,951</u>	<u>\$ 3,724,202</u>	<u>\$ 28,247,967</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Business-type Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,524,434	\$	\$ 7,200	\$ 1,517,234
Total Capital Assets, Not Being Depreciated	<u>1,524,434</u>		<u>7,200</u>	<u>1,517,234</u>
Capital Assets, Being Depreciated:				
Buildings	1,002,274	410		1,002,684
Improvements Other Than Buildings	28,444,887	1,391,149		29,836,036
Machinery and Equipment	3,514,461	13,500	62,210	3,465,751
Total Capital Assets, Being Depreciated	<u>32,961,622</u>	<u>1,405,059</u>	<u>62,210</u>	<u>34,304,471</u>
Less Accumulated Depreciation For:				
Buildings	208,439	25,288		233,727
Improvements Other Than Buildings	8,912,734	750,310		9,663,044
Machinery and Equipment	988,070	111,658	38,325	1,061,403
Total Accumulated Depreciation	<u>10,109,243</u>	<u>887,256</u>	<u>38,325</u>	<u>10,958,174</u>
Total Capital Assets, Being Depreciated, Net	<u>22,852,379</u>	<u>517,803</u>	<u>23,885</u>	<u>23,346,297</u>
Business-type Activities Capital Assets, Net	<u>\$ 24,376,813</u>	<u>\$ 517,803</u>	<u>\$ 31,085</u>	<u>\$ 24,863,531</u>

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

Governmental Activities:	
General Government	\$ 39,676
Public Safety	165,001
Public Works, including Depreciation of General Infrastructure Assets	602,306
Culture and Recreation	215,484
Economic Development	1,575
Airport	59,584
Total Depreciation Expense - Governmental Activities	<u>\$ 1,083,626</u>
Business-type Activities:	
Gas	\$ 259,041
Sewer and Wastewater	419,706
Water	172,001
Municipal Liquor	30,639
Recycling	5,869
Total Depreciation Expense - Business-type Activities	<u>\$ 887,256</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	3,026,591	94,812		3,121,403
Machinery and Equipment	657,835	82,024		739,859
Total Capital Assets, Being Depreciated	<u>3,684,426</u>	<u>176,836</u>		<u>3,861,262</u>
Total Accumulated Depreciation	<u>2,207,038</u>	<u>168,589</u>		<u>2,375,627</u>
Total Capital Assets, Being Depreciated, Net	<u>1,477,388</u>	<u>8,247</u>		<u>1,485,635</u>
Perham Area Community Center Capital Assets, Net	<u>\$ 1,518,518</u>	<u>\$ 8,247</u>	<u>\$</u>	<u>\$ 1,526,765</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	\$ 439,168	\$ 14,728	\$	\$ 453,896
Machinery and Equipment	971,204	187,271		1,158,475
Total Capital Assets, Being Depreciated	<u>1,410,372</u>	<u>201,999</u>		<u>1,612,371</u>
Less Accumulated Depreciation For:				
Improvements Other than Buildings	86,433	24,595		111,028
Machinery and Equipment	718,265	100,673		818,938
Total Accumulated Depreciation	<u>804,698</u>	<u>125,268</u>		<u>929,966</u>
Perham Golf Course Capital Assets, Net	<u>\$ 605,674</u>	<u>\$ 76,731</u>	<u>\$</u>	<u>\$ 682,405</u>

**NOTE 5. NOTES RECEIVABLE**

The City has various notes receivable from individuals and organizations at December 31, 2017, as follows:

	<u>Due Dates</u>	<u>Interest Rates</u>	<u>Balance</u>
Special Revenue Funds			
Economic Development Loans	2018 - 2023	0.0 – 6.0%	\$ 984,809
Debt Service Funds			
Economic Development Loans	2018 - 2023	0.0 - 6.95%	<u>978,565</u>
Total			<u>\$ 1,963,374</u>

The provision for uncollectible was \$118,718.

**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, 2017, 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, 2017, the City had \$52,000 in contract commitments for two unfinished street improvement projects.

**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 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were \$84,649. 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 2017. The City was required to contribute 16.20% of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$50,751. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2017, the City reported a liability of \$1,098,037 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 2017. 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 \$13,784. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0172% which was an increase of 0.0012% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$154,628 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$398 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.

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At December 31, 2017, the City reported its proportionate share of the General Employees 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	\$ 36,189	\$ 65,973
Difference between projected and actual investment earnings		5,675
Changes in actuarial assumptions	169,580	110,079
Changes in proportion	54,876	24,237
Contributions paid to PERA subsequent to the measurement date	34,767	
Total	<u>\$ 295,412</u>	<u>\$ 205,964</u>

\$34,767 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, 2018.

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

Year Ending December 31	Pension Expense Amount
2018	\$ 38,349
2019	68,987
2020	(6,021)
2021	(46,634)

At December 31, 2017, the City reported a liability of \$378,033 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0280%, which was a decrease of 0.0020% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$96,145 for its proportionate share of Police and Fire Plan's pension expense. The City also recognized \$2,520 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, 2017, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,700	\$ 110,495
Difference between projected and actual investment earnings	16,111	
Changes in actuarial assumptions	530,072	536,715
Changes in proportion	5,400	44,418
Contributions paid to PERA subsequent to the measurement date	23,643	
Total	<u>\$ 583,926</u>	<u>\$ 691,628</u>

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\$23,643 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, 2018. 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>
2018	\$ 9,149
2019	9,149
2020	(6,689)
2021	(31,493)
2022	(111,461)

Actuarial Assumptions – The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1% per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064, and then 2.5% thereafter for both plans.

Actuarial assumptions used in the June 30, 2017, 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 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.

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- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire 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.

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	\$ 1,703,136	\$ 1,098,037	\$ 602,653
Police and Fire Fund	\$ 711,947	\$ 378,033	\$ 102,369

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.

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**Plan Membership**

At December 31, 2016, the membership of the Association consisted of:

Retired and Terminated Members:		
Received Benefits		0
Deferred Benefits		2
Current Members:		
Fully Vested (20 years or more)		8
Partially Vested (10 years to 19 years)		10
Nonvested (less than 10 years)		<u>13</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.

**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.

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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.

**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 \$41,878 were made by the State of Minnesota in accordance with State Statute requirements for the year ended December 31, 2016. These contributions were for \$41,878 of normal costs. The City's statutorily required contribution was \$0.

**Pension Costs**

At December 31, 2017, the City reported a net pension asset of \$190,959 for the plan. The net pension asset was measured as of December 31, 2016. 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, 2016. 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	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(c) = (a) - (b)
Balance at previous Measurement Date 12/31/2015	\$ 606,947	\$ 764,840	\$ (157,893)
Changes for the year:			
Service Cost	26,239		26,239
Interest	37,991		37,991
Difference between expected and actual experience	(34,887)		(34,887)
Changes of assumptions	(3,561)		(3,561)
Changes of benefit terms	31,081		31,081
Contributions - State and local		41,878	(41,878)
Contributions - donations and other income			-
Contributions - member			-
Net investment income		56,039	(56,039)
Other additions (e.g. receivables)			-
Benefit payments, including member contribution refunds			-
Administrative expense			-
Other deductions (e.g. payables)		(7,988)	7,988
Net Changes	<u>56,863</u>	<u>89,929</u>	<u>(33,066)</u>
Balance at current Measurement Date 12/31/2016	<u>\$ 663,810</u>	<u>\$ 854,769</u>	<u>\$ (190,959)</u>

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2017, the City recognized pension expense of \$65,753.

At December 31, 2017, the City reported deferred outflows and inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability	\$	\$ 31,103
Changes in assumptions		10,785
Net difference between projected and actual investment earnings	36,013	
Total	<u>\$ 36,013</u>	<u>\$ 41,888</u>

**CITY OF PERHAM, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017**

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
2018	\$ 8,227
2019	8,227
2020	5,595
2021	(7,392)
2022	(5,339)
Thereafter	(15,193)

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of December 31, 2016, based on the measurement date of December 31, 2016, and using the following actuarial assumptions. The plan has not had a formal actuarial experience study performed.

- Investment rate of return is 6.25%;
- Inflation rate is 2.75%;
- Entry age normal in accordance with the requirements of GASB 67/68;
- 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.

Asset Class	Allocation at Measurement Date	Long-Term Expected Real Rate of Return	Long-Term Nominal Rate of Return
Domestic Equity	41.75%	5.58%	8.33%
International Equity	16.23%	5.71%	8.46%
Fixed Income	30.03%	2.27%	5.02%
Real Estate and Alternatives	0.65%	4.44%	7.19%
Cash and Equivalents	11.34%	0.84%	3.59%

**Discount Rate**

The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at the actual statutory contribution rate. Based on those assumptions, the Association's net position was projected to be available to make all projected future benefit payments on the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF PERHAM, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

**Sensitivity Analysis**

The following presents the net pension liability calculated using the discount rate of 6.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.25 percent) or one-percentage-point higher (7.25 percent) than the current rate:

<u>1% Decrease (5.25%)</u>	<u>Current (6.25%)</u>	<u>1% Increase (7.25%)</u>
\$ (175,948) \$	(190,959) \$	(205,681)

**Pension Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position as of December 31, 2017, is available in a separately-issued financial statement that includes financial statements and required supplementary information. That report may be obtained by writing to Perham Firefighters Relief Association at 525 W Main St, Perham, Minnesota, 56573.

**NOTE 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 \$15,158,220. During the year, general obligation bonds totaling \$2,570,000 were issued to finance a street improvement project.

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%	\$ 7,527,000
Governmental Activities – Refunding	1.05 – 4.0%	2,700,000
Business-type Activities	2.25 – 3.1%	1,420,000
Business-type Activities – Refunding	1.05 – 3.2%	250,000

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>
2018	\$ 873,000	\$ 276,947	\$ 250,000	\$ 39,237
2019	1,008,000	254,972	255,000	32,569
2020	943,000	232,426	195,000	25,743
2021	954,000	209,075	200,000	20,770
2022	950,000	184,007	210,000	15,570
2023-2027	3,509,000	563,524	560,000	19,725
2028-2032	1,790,000	156,989		
2033	200,000	3,500		
	<u>\$ 10,227,000</u>	<u>\$ 1,881,440</u>	<u>\$ 1,670,000</u>	<u>\$ 153,614</u>

CITY OF PERHAM, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

**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 \$9,058,299. During the year, general obligation revenue bonds totaling \$61,552 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%	\$2,003,784
Business-type Activities	1.0 – 2.8%	4,231,000
Business-type Activities - Refunding	3.0 – 4.0%	455,000

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

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	109,000	17,044	302,000	57,451
2023-2027	561,000	67,925	1,365,000	186,278
2028-2032	591,000	37,988	680,000	76,388
2033-2037	98,784	3,866	550,000	45,400
2038-2042			576,000	17,400
	<u>\$ 2,003,784</u>	<u>\$ 216,470</u>	<u>\$ 4,686,000</u>	<u>\$ 681,617</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	3.75 – 4.7%	\$2,790,000

CITY OF PERHAM, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2018	\$ 185,000	\$ 119,154
2019	190,000	111,980
2020	200,000	104,274
2021	205,000	96,175
2022	215,000	87,506
2023-2027	1,225,000	282,622
2028-2030	570,000	27,313
	<u>\$ 2,790,000</u>	<u>\$ 829,024</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 \$274,088 and \$330,368 at December 31, 2017.

The City has the following loans:

<u>Lender</u>	<u>Interest Rates</u>	<u>Amount</u>
U.S. Department of Agriculture	1.0%	\$ 604,456
United Community Bank	3.5%	89,750
Contract for Deed	1.3%	40,313
		<u>\$ 734,519</u>

  

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.0 – 3.5%	\$694,206
Business-type Activities	1.3%	40,313

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
2018	\$ 86,912	\$ 10,288	\$ 40,313	\$ 483
2019	87,583	8,918		
2020	88,259	7,547		
2021	98,694	6,157		
2022	69,636	3,366		
2023-2027	231,616	7,536		
2028	31,506	113		
	<u>\$ 694,206</u>	<u>\$ 43,925</u>	<u>\$ 40,313</u>	<u>\$ 483</u>

CITY OF PERHAM, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

**Changes in Long-Term Liabilities.** Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds Payable					
General Obligation Bonds	\$ 9,064,400	\$ 2,570,000	\$ 1,407,400	\$ 10,227,000	\$ 873,000
General Obligation Revenue Bonds	2,111,232	61,552	169,000	2,003,784	174,000
Subtotal Bonds Payable	11,175,632	2,631,552	1,576,400	12,230,784	1,047,000
Unamortized Premium	66,036	153,433	6,750	212,719	6,750
Total Bonds Payable	11,241,668	2,784,985	1,583,150	12,443,503	1,053,750
Other Long-term Obligations					
Loans Payable	810,455		116,249	694,206	86,912
Total Other Long-term Obligations	810,455		116,249	694,206	86,912
Compensated Absences Governmental Activity	96,089	68,167	67,073	97,183	34,154
Long-term Liabilities	\$ 12,148,212	\$ 2,853,152	\$ 1,766,472	\$ 13,234,892	\$ 1,174,816
<b>Business-type Activities</b>					
Bonds Payable					
General Obligation Bonds	\$ 1,910,000		\$ 240,000	\$ 1,670,000	\$ 250,000
General Obligation Revenue Bonds	4,989,000		303,000	4,686,000	314,000
Revenue Bonds	2,970,000		180,000	2,790,000	185,000
Subtotal Bonds Payable	9,869,000		723,000	9,146,000	749,000
Unamortized Premium	65,848		8,760	57,088	8,760
Total Bonds Payable	9,934,848		731,760	9,203,088	757,760
Other Long-term Obligations					
Lease/Purchase Agreement	144,755		144,755		
Loans Payable	80,039		39,726	40,313	40,313
Total Other Long-term Obligations	224,794		184,481	40,313	40,313
Compensated Absences Business-type Activity	71,371	30,572	30,362	71,581	25,155
Long-term Liabilities	\$ 10,231,013	\$ 30,572	\$ 946,603	\$ 9,314,982	\$ 823,228

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  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

**Component Units (Unaudited)**

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Perham Golf Course	.0%	\$37,603

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

<u>Year Ending</u> <u>December 31</u>	<u>Perham Golf Course</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 37,603	\$

**Changes in Long-Term Liabilities.** Long-term liability activity for the year ended December 31, 2017, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<b>Perham Golf Course</b>					
Other Long-term Obligations					
Loans Payable	\$ 120,313	\$ 169,850	\$ 82,710	\$ 207,453	\$ 37,603
Lifetime Memberships	16,500			16,500	
Component Unit Long-term Liabilities	<u>\$ 136,813</u>	<u>\$ 169,850</u>	<u>\$ 82,710</u>	<u>\$ 223,953</u>	<u>\$ 37,603</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, 2017, was \$348,600.

<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
\$ 337,529	\$ 11,071	\$	\$ 348,600

**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, 2017, the aggregate principal amount payable of the one series issued was \$492,063. The original issue amount totaled \$952,317.

CITY OF PERHAM, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

**NOTE 12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of December 31, 2017, is as follows:

Due to / from other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Water	Permanent Improvement	\$ 338,495
General	Nonmajor Governmental	34,631
		<u>\$ 373,126</u>

The amount payable is to finance the operation of the fund. Approximately \$301,000 of the loan from the water fund to the permanent fund is expected to be collected after 2018.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Liquor	\$ 115,250
General Fund	Sewer	15,500
General Fund	Water	15,500
General Fund	Gas	84,000
General Fund	Permanent Improvement	23,109
Economic Development Rev Loan	1996 IRP Loan Program	21,000
Perm Improvement	Liquor	60,000
Perm Improvement	Sewer	22,416
Perm Improvement	Water	24,416
Perm Improvement	Gas	118,416
Perm Improvement	Nonmajor Governmental	12,824
2015A Improvement Bonds	Sewer	49,598
2015A Improvement Bonds	Water	49,869
Nonmajor Governmental	Permanent Improvement	76,410
Nonmajor Governmental	Sewer	30,030
Nonmajor Governmental	Water	47,538
Nonmajor Governmental	Nonmajor Governmental	198,000
		<u>\$ 963,876</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	27%
Company 2	7%
Company 3	7%
Company 4	9%

**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, 2017, 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. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

CITY OF PERHAM, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

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CITY OF PERHAM, MINNESOTA  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL  
 GENERAL FUND  
 YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Property Taxes	\$ 367,351	\$ 367,351	\$ 359,022	\$ (8,329)
Special Assessments			2,111	2,111
Licenses and Permits	100,600	100,600	77,606	(22,994)
<b>Intergovernmental</b>				
<b>State</b>				
Local Governmental Aid	603,837	603,837	603,835	(2)
Police Aid	38,000	38,000	41,287	3,287
PERA	648	648	648	
Aviation Maintenance Aid	25,358	25,358	25,817	459
Other	2,500	2,500	2,225	(275)
Other Local Government	11,000	11,000	21,922	10,922
	<u>681,343</u>	<u>681,343</u>	<u>695,734</u>	<u>14,391</u>
<b>Charges for Services</b>				
General Government	52,280	52,280	61,549	9,269
Police Department	2,000	2,000	254	(1,746)
Airport	46,000	46,000	34,406	(11,594)
	<u>100,280</u>	<u>100,280</u>	<u>96,209</u>	<u>(4,071)</u>
Fines and Forfeitures	21,000	21,000	14,378	(6,622)
<b>Miscellaneous</b>				
Interest on Investments	4,000	4,000	25,833	21,833
Contributions	1,000	1,000	600	(400)
Reimbursements	15,000	17,000	36,062	19,062
Other Receipts	63,500	63,500	68,447	4,947
	<u>83,500</u>	<u>85,500</u>	<u>130,942</u>	<u>45,442</u>
<b>Total Revenues</b>	<u>1,354,074</u>	<u>1,356,074</u>	<u>1,376,002</u>	<u>19,928</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, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
EXPENDITURES				
General Government				
Mayor and Council	36,905	36,905	27,591	(9,314)
Finance / Administration	157,711	157,711	158,984	1,273
Independent Auditors	3,500	3,500	2,000	(1,500)
Legal Services	5,600	5,600	1,200	(4,400)
Planning and Zoning	9,000	9,000	6,336	(2,664)
Building Inspection Fees	79,400	79,400	60,817	(18,583)
Municipal Building	31,050	31,050	28,490	(2,560)
	<u>323,166</u>	<u>323,166</u>	<u>285,418</u>	<u>(37,748)</u>
Public Safety				
Police Protection	621,238	621,238	626,354	5,116
Police Station	11,950	11,950	8,227	(3,723)
	<u>633,188</u>	<u>633,188</u>	<u>634,581</u>	<u>1,393</u>
Public Works				
Streets and Alleys	152,960	152,960	181,476	28,516
Snow and Ice Removal	56,200	56,200	63,839	7,639
Street Lighting	62,000	62,000	68,008	6,008
	<u>271,160</u>	<u>271,160</u>	<u>313,323</u>	<u>42,163</u>
Culture and Recreation				
Senior Center	31,850	31,850	31,661	(189)
Municipal Parks	280,785	280,785	324,695	43,910
	<u>312,635</u>	<u>312,635</u>	<u>356,356</u>	<u>43,721</u>
Airport	59,400	59,400	37,762	(21,638)
Total Expenditures	<u>1,599,549</u>	<u>1,599,549</u>	<u>1,627,440</u>	<u>27,891</u>
REVENUES UNDER EXPENDITURES	<u>(245,475)</u>	<u>(243,475)</u>	<u>(251,438)</u>	<u>(7,963)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	200,832	230,250	253,358	23,108
Transfers Out	(20,000)	(20,000)		20,000
Total Other Financing Sources (Uses)	<u>180,832</u>	<u>210,250</u>	<u>253,358</u>	<u>43,108</u>
NET CHANGE IN FUND BALANCES	(64,643)	(33,225)	1,920	35,145
FUND BALANCE, JANUARY 1	<u>871,688</u>	<u>871,688</u>	<u>871,688</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 807,045</u>	<u>\$ 838,463</u>	<u>\$ 873,608</u>	<u>\$ 35,145</u>

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, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Property Taxes	\$ 66,606	\$ 66,606	\$ 71,561	\$ 4,955
Intergovernmental - State				
Other State Grants	620,000	620,000	620,000	
PERA	247	247	247	
Charges for Services	22,200	22,200	19,400	(2,800)
Miscellaneous				
Interest on Investments	2,550	2,550	6,161	3,611
Interest on Loans Receivable	45,000	45,000	43,304	(1,696)
Other Receipts	400	13,850	26,466	12,616
Total Revenues	<u>757,003</u>	<u>770,453</u>	<u>787,139</u>	<u>16,686</u>
<b>EXPENDITURES</b>				
Current				
Economic Development	157,703	788,436	800,277	11,841
Total Expenditures	<u>157,703</u>	<u>788,436</u>	<u>800,277</u>	<u>11,841</u>
REVENUES UNDER EXPENDITURES	<u>599,300</u>	<u>(17,983)</u>	<u>(13,138)</u>	<u>4,845</u>
<b>OTHER FINANCING SOURCES</b>				
Sale of Capital Asset			36,000	36,000
Transfers In	21,000	21,000	21,000	
Total Other Financing Sources	<u>21,000</u>	<u>21,000</u>	<u>57,000</u>	<u>36,000</u>
NET CHANGE IN FUND BALANCES	620,300	3,017	43,862	40,845
FUND BALANCE, JANUARY 1	<u>1,953,223</u>	<u>1,953,223</u>	<u>1,953,223</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 2,573,523</u>	<u>\$ 1,956,240</u>	<u>\$ 1,997,085</u>	<u>\$ 40,845</u>

See Notes to the Required Supplementary Information

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

Fiscal Year Ended December 31	Contributions in Relation to the Statutorily Required Contributions		Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
	Statutorily Required Contribution	Statutorily Required Contributions			
General Employees Fund	\$ 72,936	\$ 72,936	\$	962,478	7.58 %
	2016 78,737	78,737		1,049,825	7.50
	2017 84,649	84,649		1,128,655	7.50
Police and Fire Fund	\$ 47,059	\$ 47,059	\$	290,493	16.20 %
	2016 46,273	46,273		285,633	16.20
	2017 50,751	50,751		313,276	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	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	0.0163 %	\$ 844,751	\$ 17,062	\$ 955,309	88.43 %	78.19 %
2015	0.0160	1,299,121	13,784	962,478	136.75	68.90
2016	0.0172	1,098,037		1,089,241	102.07	75.90
2017						
Police and Fire Fund	0.0320 %	\$ 363,595	\$ 2,520	\$ 287,601	126.42 %	86.61 %
2015	0.0300	1,203,952		290,493	414.45	63.90
2016	0.0280	378,033		299,455	127.08	85.40
2017						

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	2017	2016	2015
<b>Total Pension Liability</b>			
Service Cost	\$ 26,239	\$ 26,367	\$ 25,661
Interest Cost	37,991	31,200	29,202
Differences between expected and actual experience	(34,887)		
Changes of Assumptions	(3,561)	(9,948)	
Changes of benefit terms	31,081		
Benefit Payments		(17,200)	(17,800)
<b>Net Change in Total Pension Liability</b>	<b>56,863</b>	<b>30,419</b>	<b>37,063</b>
<b>Total Pension Liability - Beginning</b>	<b>606,947</b>	<b>576,528</b>	<b>539,465</b>
<b>Total Pension Liability - Ending</b>	<b>\$ 663,810</b>	<b>\$ 606,947</b>	<b>\$ 576,528</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - State and Local	\$ 41,878	\$ 44,344	\$ 54,330
Net Investment Income	56,039	(24,949)	23,603
Benefit Payments		(17,200)	(17,800)
Pension Plan Administrative Expense		(4,407)	(4,187)
Other changes	(7,988)		
<b>Net Change in Plan Fiduciary Net Position</b>	<b>89,929</b>	<b>(2,212)</b>	<b>55,946</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>764,840</b>	<b>767,052</b>	<b>711,106</b>
<b>Plan Fiduciary Net Position - Ending</b>	<b>\$ 854,769</b>	<b>\$ 764,840</b>	<b>\$ 767,052</b>
<b>Net Pension Asset - Ending</b>	<b>\$ (190,959)</b>	<b>\$ (157,893)</b>	<b>\$ (190,524)</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>128.77%</b>	<b>126.01%</b>	<b>133.05%</b>
<b>Covered Payroll *</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

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

Fiscal Year Ending December 31,	Statutorily Determined Contribution	Actual Employer Contributions	Contribution Deficiency (Excess)	Covered Payroll*
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		
2016	41,878	41,878		

\* 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	12/31/2016
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	6.25%
Projected salary increases	N/A
Inflation Rate	2.75%
Cost-of-living adjustments	N/A

**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, 2017, expenditures exceeded appropriations in the general fund and the economic development revolving loan fund by \$27,891 and \$11,841 respectively.

**NOTE 3. DEFINED BENEFIT PLANS**

**PERA**

**General Employees Fund**

*2017 Changes*

Changes in Actuarial Assumptions: The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

*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.

**Police and Fire Fund**

Changes in Actuarial Assumptions: Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30

**CITY OF PERHAM, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2017**

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percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing Joint and Survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

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CITY OF PERHAM, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2017

Exhibit B-1

	Special Revenue Funds Exhibit C-1	Debt Service Funds Exhibit C-3	Capital Projects Funds Exhibit C-5	Permanent Fund	Total Nonmajor Governmental Funds Exhibit A-3
<b>ASSETS</b>					
Cash and Investments	\$ 1,134,276	\$ 1,288,103	\$ 106,426	\$ 57,201	\$ 2,586,006
Accounts Receivable	17,988				17,988
Tax Receivable - Current	2,117	3,003			5,120
Tax Receivable - Delinquent	8,427	177			8,604
Special Assessments Receivable					
Delinquent		6,816			6,816
Noncurrent		3,232,873			3,232,873
<b>TOTAL ASSETS</b>	<b>\$ 1,162,808</b>	<b>\$ 4,530,972</b>	<b>\$ 106,426</b>	<b>\$ 57,201</b>	<b>\$ 5,857,407</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 29,101		\$ 133,109		\$ 162,210
Accrued Payroll	94				94
Due to Other Funds		32,985	1,646		34,631
<b>Total Liabilities</b>	<b>29,195</b>	<b>32,985</b>	<b>134,755</b>		<b>196,935</b>
<b>Deferred Inflows of Resources</b>					
Unavailable Revenue	8,427	3,239,866			3,248,293
<b>Total Deferred Inflows of Resources</b>	<b>8,427</b>	<b>3,239,866</b>			<b>3,248,293</b>
<b>Fund Balance</b>					
Nonspendable - Endowment				50,000	50,000
Restricted for:					
TIF District	681,210				681,210
Marketing	32,154				32,154
Debt Service		1,289,409			1,289,409
Committed for:					
Library	82,355				82,355
Fire and Rescue	191,188				191,188
Storm Sewer	138,279				138,279
Assigned					
Park				7,201	7,201
Unassigned		(31,288)	(28,329)		(59,617)
<b>Total Fund Balance</b>	<b>1,125,186</b>	<b>1,258,121</b>	<b>(28,329)</b>	<b>57,201</b>	<b>2,412,179</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 1,162,808</b>	<b>\$ 4,530,972</b>	<b>\$ 106,426</b>	<b>\$ 57,201</b>	<b>\$ 5,857,407</b>

CITY OF PERHAM, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED DECEMBER 31, 2017

Exhibit B-2

	Special Revenue Funds Exhibit C-2	Debt Service Funds Exhibit C-4	Capital Projects Funds Exhibit C-6	Permanent Fund	Total Nonmajor Governmental Funds Exhibit A-5
<b>REVENUES</b>					
Property Taxes	\$ 1,121,257	\$ 355,194	\$	\$	\$ 1,476,451
Hotel/Motel Tax	50,046				50,046
Special Assessments		537,280			537,280
Intergovernmental - Federal		13,372			13,372
Intergovernmental - State	99,938				99,938
Intergovernmental - Local	151,960				151,960
Charges for Services	94,664				94,664
Miscellaneous					
Interest on Investments	4,191	11,177		3,500	18,868
Contributions	7,599				7,599
Reimbursements	10,214				10,214
Other Receipts	3,525				3,525
Total Revenues	<u>1,543,394</u>	<u>917,023</u>		<u>3,500</u>	<u>2,463,917</u>
<b>EXPENDITURES</b>					
Current					
Public Safety	258,260				258,260
Public Works	10,951				10,951
Culture and Recreation	199,365			425	199,790
Economic Development	555,301				555,301
Debt					
Principal		1,339,601			1,339,601
Interest		187,070			187,070
Fees		3,395			3,395
Capital Outlay					
Public Works			61,847		61,847
Total Expenditures	<u>1,023,877</u>	<u>1,530,066</u>	<u>61,847</u>	<u>425</u>	<u>2,616,215</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>519,517</u>	<u>(613,043)</u>	<u>(61,847)</u>	<u>3,075</u>	<u>(152,298)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Debt Issued			61,552		61,552
Transfers In	4,796	347,183			351,979
Transfers Out	(198,000)	(12,824)			(210,824)
Total Other Financing Sources (Uses)	<u>(193,204)</u>	<u>334,359</u>	<u>61,552</u>		<u>202,707</u>
NET CHANGE IN FUND BALANCES	<u>326,313</u>	<u>(278,684)</u>	<u>(295)</u>	<u>3,075</u>	<u>50,409</u>
FUND BALANCE, JANUARY 1	<u>798,873</u>	<u>1,536,805</u>	<u>(28,034)</u>	<u>54,126</u>	<u>2,361,770</u>
FUND BALANCE, DECEMBER 31	<u>\$ 1,125,186</u>	<u>\$ 1,258,121</u>	<u>\$ (28,329)</u>	<u>\$ 57,201</u>	<u>\$ 2,412,179</u>

CITY OF PERHAM, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 DECEMBER 31, 2017

Exhibit C-1

	<u>Library</u>	<u>Fire and Rescue</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	\$ 87,874	\$ 189,171	\$ 699,110	\$ 134,394	\$ 23,727	\$ 1,134,276
Accounts Receivable		5,394		4,167	8,427	17,988
Tax Receivable - Current	1,155	962				2,117
Tax Receivable - Delinquent	<u>68</u>	<u>57</u>	<u>8,302</u>			<u>8,427</u>
<b>TOTAL ASSETS</b>	<u>\$ 89,097</u>	<u>\$ 195,584</u>	<u>\$ 707,412</u>	<u>\$ 138,561</u>	<u>\$ 32,154</u>	<u>\$ 1,162,808</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts Payable	\$ 6,580	\$ 4,339	\$ 17,900	\$ 282		\$ 29,101
Accrued Payroll	94					94
Total Liabilities	<u>6,674</u>	<u>4,339</u>	<u>17,900</u>	<u>282</u>		<u>29,195</u>
<b>Deferred Inflows of Resources</b>						
Unavailable Revenue	<u>68</u>	<u>57</u>	<u>8,302</u>			<u>8,427</u>
Total Deferred Inflows of Resources	<u>68</u>	<u>57</u>	<u>8,302</u>			<u>8,427</u>
<b>Fund Balance</b>						
<b>Restricted for:</b>						
TIF District			681,210			681,210
Marketing				32,154		32,154
<b>Committed for:</b>						
Library	82,355					82,355
Fire and Rescue		191,188				191,188
Storm Sewer				138,279		138,279
Total Fund Balance	<u>82,355</u>	<u>191,188</u>	<u>681,210</u>	<u>138,279</u>	<u>32,154</u>	<u>1,125,186</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 89,097</u>	<u>\$ 195,584</u>	<u>\$ 707,412</u>	<u>\$ 138,561</u>	<u>\$ 32,154</u>	<u>\$ 1,162,808</u>

CITY OF PERHAM, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED DECEMBER 31, 2017

Exhibit C-2

	Library	Fire and Rescue	CDBG	TIF Districts	Storm Sewer	Lodging Tax	Total Nonmajor Special Revenue Funds Exhibit B-2
<b>REVENUES</b>							
Property Taxes	\$ 136,126	\$ 113,296	\$	\$ 871,835	\$	\$	\$ 1,121,257
Hotel/Motel Tax						50,046	50,046
Intergovernmental - State							
Fire Aid		42,493					42,493
PERA	309						309
Other State Aid		57,136					57,136
Intergovernmental - Local							
Other Local Government	37,908						37,908
Township		114,052					114,052
Charges for Services	6,030	42,845			45,789		94,664
Miscellaneous							
Interest on Investments	639	588		2,128	603	233	4,191
Contributions	7,374	225					7,599
Reimbursements	10,214						10,214
Other Receipts	459	2,992			74		3,525
Total Revenues	<u>199,059</u>	<u>373,627</u>		<u>873,963</u>	<u>46,466</u>	<u>50,279</u>	<u>1,543,394</u>
<b>EXPENDITURES</b>							
Current							
Public Safety		258,260					258,260
Public Works					10,951		10,951
Culture and Recreation	199,365						199,365
Economic Development			1,352	508,949		45,000	555,301
Total Expenditures	<u>199,365</u>	<u>258,260</u>	<u>1,352</u>	<u>508,949</u>	<u>10,951</u>	<u>45,000</u>	<u>1,023,877</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(306)</u>	<u>115,367</u>	<u>(1,352)</u>	<u>365,014</u>	<u>35,515</u>	<u>5,279</u>	<u>519,517</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers In	4,796						4,796
Transfers Out				(198,000)			(198,000)
Total Other Financing Sources (Uses)	<u>4,796</u>			<u>(198,000)</u>			<u>(193,204)</u>
NET CHANGE IN FUND BALANCES	<u>4,490</u>	<u>115,367</u>	<u>(1,352)</u>	<u>167,014</u>	<u>35,515</u>	<u>5,279</u>	<u>326,313</u>
FUND BALANCE, JANUARY 1	<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>
FUND BALANCE, DECEMBER 31	<u>\$ 82,355</u>	<u>\$ 191,188</u>	<u>\$</u>	<u>\$ 681,210</u>	<u>\$ 138,279</u>	<u>\$ 32,154</u>	<u>\$ 1,125,186</u>

CITY OF PERHAM, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR DEBT SERVICE FUNDS  
 DECEMBER 31, 2017

Exhibit C-3

	2005 G.O. Improvement Bonds	2007 G.O. Improvement Bonds	2011A G.O. Improvement Bonds	1999 Industrial Park Improvement	2017A Improvement Bonds	Golf Course
<b>ASSETS</b>						
Cash and Investments	\$ 70,163	\$ 378,260	\$ 124,405	\$	\$ 137,084	\$ 66,695
Taxes Receivable - Current		170	340			
Taxes Receivable - Delinquent		10	20			
Special Assessments Receivable						
Delinquent		594				
Noncurrent	132,262	158,001	460,568	98,082	752,682	
<b>TOTAL ASSETS</b>	<b>\$ 202,425</b>	<b>\$ 537,035</b>	<b>\$ 585,333</b>	<b>\$ 98,082</b>	<b>\$ 889,766</b>	<b>\$ 66,695</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>						
<b>LIABILITIES</b>						
Due to Other Funds	\$	\$	\$	\$	\$	\$
Total Liabilities						
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue	132,262	158,605	460,588	98,082	752,682	
Total Deferred Inflows of Resources	132,262	158,605	460,588	98,082	752,682	
<b>FUND BALANCE</b>						
Restricted for Debt Service	70,163	378,430	124,745		137,084	66,695
Unassigned						
Total Fund Balance	70,163	378,430	124,745		137,084	66,695
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 202,425</b>	<b>\$ 537,035</b>	<b>\$ 585,333</b>	<b>\$ 98,082</b>	<b>\$ 889,766</b>	<b>\$ 66,695</b>

cont.

CITY OF PERHAM, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR DEBT SERVICE FUNDS  
 DECEMBER 31, 2017

Exhibit C-3

	2006 G.O. Bonds	2009B G.O. Refunding Bonds	2009 G.O. Improvement Bonds	2010A G.O. Improvement Bonds	2013 G.O. Improvement Bonds	Victory Estates G.O. Improvement Bonds	Nonmajor Debt Service Funds Exhibit B-1
<b>ASSETS</b>							
Cash and Investments	\$ 12,418	\$	\$ 125,420	\$ 216,237	\$ 157,421	\$	\$ 1,288,103
Taxes Receivable - Current		1,697		423	373		3,003
Taxes Receivable - Delinquent		100		25	22		177
Special Assessments Receivable							
Delinquent	4,801	301	964		156		6,816
Noncurrent	77,782	250,207	791,405	122,363	259,163	130,358	3,232,873
<b>TOTAL ASSETS</b>	<b>\$ 95,001</b>	<b>\$ 252,305</b>	<b>\$ 917,789</b>	<b>\$ 339,048</b>	<b>\$ 417,135</b>	<b>\$ 130,358</b>	<b>\$ 4,530,972</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>							
<b>LIABILITIES</b>							
Due to Other Funds	\$	\$ 27,180	\$	\$	\$	\$ 5,805	\$ 32,985
Total Liabilities		27,180				5,805	32,985
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable Revenue	82,583	250,608	792,369	122,388	259,341	130,358	3,239,866
Total Deferred Inflows of Resources	82,583	250,608	792,369	122,388	259,341	130,358	3,239,866
<b>FUND BALANCE</b>							
Restricted for Debt Service	12,418		125,420	216,660	157,794		1,289,409
Unassigned		(25,483)				(5,805)	(31,288)
Total Fund Balance	12,418	(25,483)	125,420	216,660	157,794	(5,805)	1,258,121
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 95,001</b>	<b>\$ 252,305</b>	<b>\$ 917,789</b>	<b>\$ 339,048</b>	<b>\$ 417,135</b>	<b>\$ 130,358</b>	<b>\$ 4,530,972</b>

CITY OF PERHAM, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR DEBT SERVICE FUNDS  
 YEAR ENDED DECEMBER 31, 2017

Exhibit C-4

	2005 G.O. Improvement Bonds	2007 G.O. Improvement Bonds	2011A G.O. Improvement Bonds	1999 Industrial Park Improvement	2017A Improvement Bonds	Golf Course
REVENUES						
Property Taxes	\$ 46	\$ 20,190	\$ 39,929	\$	\$	\$
Special Assessments	56,124	38,957	66,649	8,145	137,084	
Intergovernmental						
Federal						
Miscellaneous						
Interest on Investments	714	2,958	789	1,619		474
Total Revenues	<u>56,884</u>	<u>62,105</u>	<u>107,367</u>	<u>9,764</u>	<u>137,084</u>	<u>474</u>
EXPENDITURES						
Principal	120,000	100,000	93,000	229,400		65,000
Interest	13,638	20,300	25,743	14,254		6,165
Fees	225	225	450			450
Total Expenditures	<u>133,863</u>	<u>120,525</u>	<u>119,193</u>	<u>243,654</u>		<u>71,615</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(76,979)</u>	<u>(58,420)</u>	<u>(11,826)</u>	<u>(233,890)</u>	<u>137,084</u>	<u>(71,141)</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	50,000	15,000	24,663			71,615
Transfers Out				(12,824)		
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>15,000</u>	<u>24,663</u>	<u>(12,824)</u>		<u>71,615</u>
NET CHANGE IN FUND BALANCES	<u>(26,979)</u>	<u>(43,420)</u>	<u>12,837</u>	<u>(246,714)</u>	<u>137,084</u>	<u>474</u>
FUND BALANCE JANUARY 1	<u>97,142</u>	<u>421,850</u>	<u>111,908</u>	<u>246,714</u>		<u>66,221</u>
FUND BALANCE DECEMBER 31	<u>\$ 70,163</u>	<u>\$ 378,430</u>	<u>\$ 124,745</u>	<u>\$</u>	<u>\$ 137,084</u>	<u>\$ 66,695</u>

cont.

CITY OF PERHAM, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR DEBT SERVICE FUNDS  
 YEAR ENDED DECEMBER 31, 2017

Exhibit C-4

	2006 G.O. Bonds	2009B G.O. Refunding Bonds	2009 G.O. Improvement Bonds	2010A G.O. Improvement Bonds	2013 G.O. Improvement Bonds	Victory Estates G.O. Improvement Bonds	Nonmajor Debt Service Funds Exhibit B-2
<b>REVENUES</b>							
Property Taxes	\$ 392	\$ 200,463	\$ 99	\$ 49,889	\$ 44,186	\$	\$ 355,194
Special Assessments	26,450	49,007	92,399	20,064	38,408	3,993	537,280
Intergovernmental							
Federal				13,372			13,372
Miscellaneous							
Interest on Investments	267	1,059	835	1,414	1,047	1	11,177
Total Revenues	<u>27,109</u>	<u>250,529</u>	<u>93,333</u>	<u>84,739</u>	<u>83,641</u>	<u>3,994</u>	<u>917,023</u>
<b>EXPENDITURES</b>							
Principal	80,000	440,000	95,000	40,000	70,000	7,201	1,339,601
Interest	2,189	12,735	17,000	41,038	31,245	2,763	187,070
Fees	225	495	450	450	425		3,395
Total Expenditures	<u>82,414</u>	<u>453,230</u>	<u>112,450</u>	<u>81,488</u>	<u>101,670</u>	<u>9,964</u>	<u>1,530,066</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(55,305)</u>	<u>(202,701)</u>	<u>(19,117)</u>	<u>3,251</u>	<u>(18,029)</u>	<u>(5,970)</u>	<u>(613,043)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers In	35,000	93,000	20,000	17,400	20,505		347,183
Transfers Out							(12,824)
Total Other Financing Sources (Uses)	<u>35,000</u>	<u>93,000</u>	<u>20,000</u>	<u>17,400</u>	<u>20,505</u>		<u>334,359</u>
NET CHANGE IN FUND BALANCES	<u>(20,305)</u>	<u>(109,701)</u>	<u>883</u>	<u>20,651</u>	<u>2,476</u>	<u>(5,970)</u>	<u>(278,684)</u>
FUND BALANCE JANUARY 1	<u>32,723</u>	<u>84,218</u>	<u>124,537</u>	<u>196,009</u>	<u>155,318</u>	<u>165</u>	<u>1,536,805</u>
FUND BALANCE DECEMBER 31	<u>\$ 12,418</u>	<u>\$ (25,483)</u>	<u>\$ 125,420</u>	<u>\$ 216,660</u>	<u>\$ 157,794</u>	<u>\$ (5,805)</u>	<u>\$ 1,258,121</u>

CITY OF PERHAM, MINNESOTA  
 COMBINING BLANCE SHEET  
 NONMAJOR CAPITAL PROJECT FUNDS  
 DECEMBER 31, 2017

Exhibit C-5

	<u>Interchange Project</u>	<u>2015 Improvement Project</u>	<u>Total Nonmajor Capital Projects Funds Exhibit B-1</u>
<b>ASSETS</b>			
Cash and Investments	\$ _____	\$ 106,426	\$ 106,426
<b>TOTAL ASSETS</b>	<u>\$ _____</u>	<u>\$ 106,426</u>	<u>\$ 106,426</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ _____	\$ 133,109	\$ 133,109
Due to Other Funds	1,646	_____	1,646
Total Liabilities	<u>1,646</u>	<u>133,109</u>	<u>134,755</u>
<b>FUND BALANCE</b>			
Unassigned	(1,646)	(26,683)	(28,329)
Total Fund Balance	<u>(1,646)</u>	<u>(26,683)</u>	<u>(28,329)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ _____</u>	<u>\$ 106,426</u>	<u>\$ 106,426</u>

CITY OF PERHAM, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR CAPITAL PROJECT FUNDS  
 YEAR ENDED DECEMBER 31, 2017

Exhibit C-6

	Interchange Project	2015 Improvement Project	Total Nonmajor Capital Projects Funds Exhibit B-2
EXPENDITURES			
Capital Outlay			
Public Works	\$	\$ 61,847	\$ 61,847
Total Expenditures	<u>                    </u>	<u>61,847</u>	<u>61,847</u>
OTHER FINANCING SOURCES			
Debt Issued		61,552	61,552
Total Other Financing Sources	<u>                    </u>	<u>61,552</u>	<u>61,552</u>
NET CHANGE IN FUND BALANCES		(295)	(295)
FUND BALANCE, JANUARY 1	<u>(1,646)</u>	<u>(26,388)</u>	<u>(28,034)</u>
FUND BALANCE, DECEMBER 31	<u>\$ (1,646)</u>	<u>\$ (26,683)</u>	<u>\$ (28,329)</u>

CITY OF PERHAM, MINNESOTA  
 SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION  
 YEAR ENDED DECEMBER 31, 2017

	Beginning Balance	Revenues	Expenditures	Transfer In	Transfer Out	Long Term Debt Issued	Capital Contributions	Sale of Capital Assets	Ending Balance
Primary Government Governmental Funds									
General	\$ 871,688	\$ 1,376,002	\$ 1,627,440	\$ 253,358	\$	\$	\$	\$	\$ 873,608
Special Revenue									
Library	77,865	199,059	199,365	4,796					82,355
Fire and Rescue	75,821	373,627	258,260						191,188
Economic Development								36,000	
Revolving Loan	1,953,223	787,139	800,277	21,000					1,997,085
CDBG	1,352		1,352						
TIF Districts	514,196	873,963	508,949		198,000				681,210
Storm Sewer	102,764	46,466	10,951						138,279
Lodging Tax	26,875	50,279	45,000						32,154
Debt Service									
1996 IRP Loan Program	2,071,378	62,657	73,001		21,000				2,040,034
2005 G.O. Improvement Bonds	97,142	56,884	133,863	50,000					70,163
2007 G.O. Improvement Bonds	421,850	62,105	120,525	15,000					378,430
1999 Industrial Park Improvement	246,714	9,764	243,654		12,824				
Golf Course	66,221	474	71,615	71,615					66,695
2006 G.O. Bonds	32,723	27,109	82,414	35,000					12,418
2009B G.O. Refunding Bonds	84,218	250,529	453,230	93,000					(25,483)
2009 G.O. Improvement Bonds	124,537	93,333	112,450	20,000					125,420
2010A G.O. Improvement Bonds	196,009	84,739	81,488	17,400					216,660
2011A G.O. Improvement Bonds	111,908	107,367	119,193	24,663					124,745
2013 G.O. Improvement Bonds	155,318	83,841	101,670	20,505					157,794
2015 G.O. Improvement Bonds	366,468	186,664	246,079	99,467					406,520
Victory Estates G.O. Improvement Bonds	165	3,994	9,964						(5,806)
2017A Improvement Bonds		137,084							137,084
Capital Projects									
Permanent Improvement	824,660	387,466	1,150,238	238,072	99,520				200,440
Interchange Project	(1,646)								(1,646)
2015 Improvement Project	(26,388)		61,847			61,552			(26,683)
2017 Improvement Project	(84,879)	3,338	2,511,843			2,723,433			130,049
Permanent Fund	54,126	3,500	425						57,201
Total Governmental Funds	8,364,308	5,267,183	9,025,093	963,876	331,344	2,784,985		36,000	8,059,915

cont.

**CITY OF PERHAM, MINNESOTA  
 SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION  
 YEAR ENDED DECEMBER 31, 2017**

	Beginning Balance	Revenues	Expenditures	Transfer In	Transfer Out	Long Term Debt Issued	Capital Contributions	Sale of Capital Assets	Ending Balance
<b>Proprietary Funds</b>									
Municipal Liquor	1,825,515	3,384,094	3,017,525		175,250				2,016,834
Gas	3,038,409	6,654,060	5,876,485		202,416				3,613,568
Sewer and Wastewater	8,664,200	1,352,909	1,115,170		117,544		389,508		9,173,903
Water	5,330,881	826,153	654,119		137,322		493,377		5,858,970
Recycling	118,315	81,058	86,078						113,295
<b>Total Proprietary Funds</b>	<b>18,977,320</b>	<b>12,298,274</b>	<b>10,749,377</b>		<b>632,532</b>		<b>882,885</b>		<b>20,776,570</b>
<b>Total Primary Government</b>	<b>\$ 27,341,628</b>	<b>\$ 17,565,457</b>	<b>\$ 19,774,470</b>	<b>\$ 963,876</b>	<b>\$ 963,876</b>	<b>\$ 2,784,985</b>	<b>\$ 882,885</b>	<b>\$ 36,000</b>	<b>\$ 28,836,485</b>
<b>Component Units</b>									
Perham Area Community Center	\$ 1,991,722	\$ 1,038,573	\$ 1,036,988	\$	\$	\$	\$	\$	\$ 1,993,307
Perham Golf Course	205,142	1,473,136	1,515,305						162,973
<b>Total Component Units</b>	<b>\$ 2,196,864</b>	<b>\$ 2,511,709</b>	<b>\$ 2,552,293</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,156,280</b>

**CITY OF PERHAM, MINNESOTA  
SCHEDULE OF INDEBTEDNESS  
DECEMBER 31, 2017**

BOND INDEBTEDNESS										
General Obligation Bonds										
	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2016	Issued 2017	Retired 2017	Balance 12/31/2017	Principal 2018	Interest 2018
G.O. Improvement Bonds of 1999	4.0 - 5.5	12/21/99	2-1-2018/26	\$ 382,000	\$ 229,400	\$	\$ 229,400	\$ 810,000	\$	\$
G.O. Improvement Bonds of 2010A		07/01/10	8-20-2018/26	1,030,000	850,000		40,000	217,000	85,000	38,538
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2018/26	337,745	240,000		23,000	95,000	23,000	3,038
G.O. Bonds (MPFA)	1.4	08/08/11	8-20-2018/26	148,475	105,000		10,000	120,000	10,000	1,321
G.O. Refunding & Crossover, 2009B	3.05 - 3.2	11/01/09	2-1-2018/19	505,000	180,000		60,000	225,000	60,000	3,750
G.O. Refunding & Crossover, 2009B	3.05 - 3.2	11/01/09	2-1-2018/19	3,045,000	665,000		440,000	700,000	110,000	4,443
G.O. Improvement Bonds 2011	2.25 - 3.4	09/01/11	2-1-2018/27	990,000	760,000		60,000	805,000	60,000	19,648
G.O. Refunding & Crossover, 2012	1.05 - 2.45	03/14/12	2-1-2018/26	1,270,000	925,000		120,000	415,000	120,000	12,498
G.O. Refunding & Crossover, 2012	1.05 - 2.45	03/14/12	2-1-2018/26	660,000	495,000		80,000	130,000	80,000	2,164
G.O. Improvement Bonds 2013	3.0-3.8	10/02/13	2-1-2018/29	1,115,000	990,000		70,000	920,000	70,000	5,108
G.O. Bonds 2014 Cross Over Refunded 2007A	3.0-4.0	09/10/14	2-1-2018/23	760,000	660,000		100,000	560,000	85,000	29,145
G.O. Bonds Series 2015A	2.25 - 3.1	07/21/15	2-1-2018/31	820,000	820,000		45,000	775,000	45,000	17,525
G.O. Bonds Series 2015A	2.25 - 3.1	07/21/15	2-1-2018/31	1,535,000	1,535,000		95,000	1,440,000	95,000	19,236
G.O. Bonds Series 2015A	2.25 - 3.1	07/21/15	2-1-2018/25	1,580,000	1,580,000		160,000	1,420,000	165,000	35,381
G.O. Bonds Improvement Refunding, Series 2016A	2.0 - 2.5	01/07/16	2-1-2018/25	790,000	790,000	2,570,000	95,000	695,000	90,000	30,379
G.O. Bonds Improvement Refunding, Series 2017A	3.0 - 3.5	08/01/17	2-1-2018/33	2,570,000	10,974,400	2,570,000	1,647,400	11,897,000	1,123,000	15,150
<b>Total</b>										
<b>General Obligation Revenue Bonds</b>										
G.O. Bonds 2014 Crossover Refunded 2008A	3.0-4.0	09/10/14	2-1-2018/24	510,000	510,000		55,000	455,000	60,000	14,800
G.O. Revenue Bonds - PFA	2.79	11/19/99	8-20-2018/19	607,436	117,000		38,000	79,000	39,000	2,204
G.O. Bonds (MPFA)	2.7	01/28/09	8-20-2018/28	2,422,209	1,656,000		118,000	1,538,000	122,000	42,187
G.O. Bonds (MPFA)	1.00	11/16/12	8-20-2018/42	3,014,967	2,706,000		92,000	2,614,000	93,000	26,140
G.O. Improvement Bonds 2012B	1.9 - 2.4	03/28/12	11-1-2018/20	585,000	285,000		65,000	220,000	70,000	4,930
G.O. Bonds (MPFA) Clean Water	1.045	09/23/15	8-20-2018/35	1,189,522	955,585	32,175	54,000	933,760	54,000	11,160
G.O. Bonds (MPFA) Drinking Water	1.045	09/23/15	8-20-2018/35	1,082,233	870,647	29,377	50,000	850,024	50,000	10,314
<b>Total</b>										
<b>Revenue Bonds</b>										
Gas Utility Refunding Bond 2009C	3.5 - 4.7	11/17/09	6-1-2018/29	4,060,000	2,970,000		180,000	2,790,000	185,000	119,154
<b>Total</b>										
<b>Total Bonds</b>										
<b>Loans</b>										
U.S. Department of Agriculture	1.0	11/28/94	11-28-2018/24	1,000,000	312,065		37,977	274,088	38,358	2,767
U.S. Department of Agriculture	1.0	04/24/98	4-24-2018/28	775,000	358,639		28,271	330,368	28,554	3,321
United Community Bank - Golf Course	3.5	11/15/04	10-15-18/21	300,000	139,750		50,000	89,750	20,000	4,200
Contract for Deed	1.3	07/01/11	7-1-2018/18	312,000	80,039		39,726	40,313	40,313	483
<b>Total</b>										
<b>Other Long-term Debt</b>										
Lease-Purchase Agreement	2.75	11/01/11		777,138	144,755		144,755		1,923,225	557,844
<b>Total Primary Government Inebtedness</b>										
<b>Loans Payable</b>										
Golf Course	4.95	04/22/15		95,040	60,517		60,517		20,504	
VGM Financial Services	0.0	04/28/12	11/15/2018	93,136	59,796		22,193	37,603	20,504	
<b>Total Financial Unit Inebtedness</b>										
<b>Total Inebtedness</b>										
				\$	\$	\$	\$	\$	\$	\$
				22,200,193	22,079,880	2,631,552	2,682,839	22,111,303	1,943,729	557,844



## 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, 2017, and the related notes to the financial statements, and have issued our report thereon dated May 24, 2018. 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, 2018

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**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, 2017, 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, 2018. 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 2017-001 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, 2018

CITY OF PERHAM, MINNESOTA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2017

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**2017-001 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, 2017

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**2017-001 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