

**CITY OF MENAHGA, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2015**





**CITY OF MENAHGA, MINNESOTA  
TABLE OF CONTENTS (CONTINUED)  
DECEMBER 31, 2015**

<b>INTRODUCTORY SECTION</b>	<b>1</b>
<b>PRINCIPAL CITY OFFICIALS</b>	<b>1</b>
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>5</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>GOVERNMENT-WIDE FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	<b>18</b>
<b>STATEMENT OF ACTIVITIES</b>	<b>19</b>
<b>FUND FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEET – GOVERNMENTAL FUNDS</b>	<b>21</b>
<b>RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET             TO THE STATEMENT OF NET POSITION – GOVERNMENTAL             ACTIVITIES</b>	<b>23</b>
<b>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND             BALANCES – GOVERNMENTAL FUNDS</b>	<b>24</b>
<b>RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF             REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO             THE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES</b>	<b>26</b>
<b>STATEMENT OF NET POSITION – PROPRIETARY FUNDS</b>	<b>27</b>
<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET             POSITION – PROPRIETARY FUNDS</b>	<b>28</b>
<b>STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS</b>	<b>29</b>
<b>STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUND</b>	<b>31</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>32</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&amp;A</b>	
<b>FIRE RELIEF ASSOCIATION – SCHEDULE OF CHANGES IN THE NET PENSION         ASSET AND RELATED RATIOS</b>	<b>77</b>
<b>BUDGETARY COMPARISON SCHEDULE – GENERAL FUND</b>	<b>78</b>
<b>SCHEDULE OF CITY PROPORTIONATE SHARE OF THE NET PENSION LIABILITY</b>	<b>80</b>
<b>SCHEDULE OF CITY CONTRIBUTIONS</b>	<b>81</b>

**CITY OF MENAHGA, MINNESOTA  
TABLE OF CONTENTS (CONTINUED)  
DECEMBER 31, 2015**

**FINANCIAL SECTION (CONTINUED)**

**SUPPLEMENTARY INFORMATION**

<b>COMBINING FUND FINANCIAL STATEMENTS</b>	<b>61</b>
<b>COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS</b>	<b>82</b>
<b>COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS</b>	<b>84</b>
<b>BALANCE SHEET – DEBT SERVICE FUND BY BOND ISSUE</b>	<b>86</b>
<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – DEBT SERVICE FUND BY BOND ISSUE</b>	<b>88</b>
<b>BALANCE SHEET – CAPITAL PROJECTS FUND BY CAPITAL PROJECT</b>	<b>90</b>
<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – CAPITAL PROJECTS FUND BY CAPITAL PROJECT</b>	<b>91</b>

**OTHER REPORTS SECTION**

<b>INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>92</b>
<b>SCHEDULE OF FINDINGS AND RECOMMENDATIONS</b>	<b>94</b>
<b>INDEPENDENT AUDITORS’ REPORT ON MINNESOTA LEGAL COMPLIANCE</b>	<b>97</b>



# **INTRODUCTORY SECTION**





**CITY OF MENAHGA, MINNESOTA  
PRINCIPAL CITY OFFICIALS  
DECEMBER 31, 2015**

**ELECTED OFFICIALS**

<u>Position</u>	<u>Term Expires</u>	<u>Name</u>
Mayor	12/31/2016	Patrick Foss
Vice Mayor	12/31/2016	Kim Rasmussen
Council Member	12/31/2016	Martin Ahlf
Council Member	12/31/2018	Roger Henstorf
Council Member	12/31/2018	Craig Lawrey

**APPOINTED OFFICIALS**

<u>Position</u>	<u>Name</u>
City Administrator	Charleen West

This Page Has Been Intentionally Left Blank.

## **FINANCIAL SECTION**





## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and  
Members of the City Council  
City of Menahga  
Menahga, Minnesota

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Menahga (City), Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which 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.

### ***Auditors' 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.

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

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

Honorable Mayor and  
Members of the City Council  
City of Menahga

### ***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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

During the year ended December 31, 2015, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the City reported a restatement for the change in accounting principle in its governmental activities and business-type funds (see Note 7). Our auditors' opinion was not modified with respect to the restatement.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the fire relief association schedule of changes in the net pension asset and related contributions, the budgetary comparison schedule, schedule of the proportionate share of the net pension liability, the schedule of contributions 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements, the debt service fund by bond issue financial statements and the capital projects fund by capital project financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and  
Members of the City Council  
City of Menahga

***Other Matters (Continued)***

*Supplementary Information (Continued)*

The combining nonmajor fund financial statements, the debt service fund by bond issue financial statements and the capital projects fund by capital project financial statements 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, the debt service fund by bond issue financial statements and the capital projects fund by capital project financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 24, 2016

This Page Has Been Intentionally Left Blank.



## **REQUIRED SUPPLEMENTARY INFORMATION**



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

This section of the City of Menahga's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2015. The management's discussion and analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year (2015) and the prior year (2014) is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2015 include the following:

- City-wide net position increased approximately \$240,000 over the prior year not including the prior period restatement. This is due primarily to the City receiving more in intergovernmental revenue.
- As of the close of the current year, the City's governmental funds reported combined fund balance of \$1,465,534, an increase of \$143,886 in comparison to the prior year. Approximately 39% of this amount, or \$566,643, is restricted for economic development, debt repayment, and capital outlay. Approximately 24% of this amount, or \$345,191 is assigned for capital outlay.
- At the end of the current year, unassigned fund balance for the General Fund was \$522,177, or 50% of General Fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts – independent auditors' report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are City-wide financial statements which provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the City, reporting the City's operations in more detail than the City-wide statements.
  - The governmental funds statements tell how basic services such as general government, public safety, and public works were financed in the short-term, as well as what remains for future spending.
  - The proprietary funds statements tell how the City's various business-type activities such as water, sewer and municipal liquor activities are operating as well as what remains for future spending.
  - The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others to whom the resources belong.

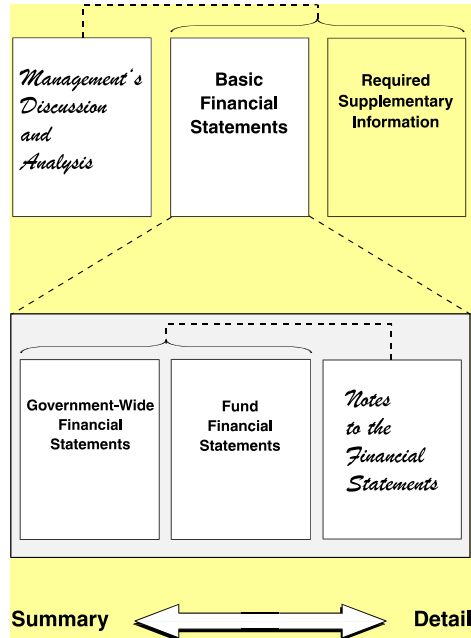
**CITY OF MENAHGA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1  
Annual Report Format**



**CITY OF MENA HGA, MINNESOTA  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Figure A-2 summarizes the major features of the City’s financial statements, including the portion of the City’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2. Major Features of the City’s Government-Wide and Fund Financial Statements</b>				
<b>Type of Statements</b>	<b>Government-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire City’s government (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary.	The activities of the City that operate similar to private businesses: water, sewer, municipal liquor as examples.	Instances in which the City is the trustee or agent for someone else’s resources.
Required financial statements	Statement of net position.	Balance sheet.	Statement of net position.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of revenues, expenses, and changes in fund net position and statement of cash flows.	Statement of changes in fiduciary net position.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset and deferred outflow of resources/liability and deferred inflow of resources information	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term.	Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter, no capital assets included.	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

**City-Wide Statements**

The City-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City’s assets, deferred inflows/outflows of resources, and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two City-wide statements report the City’s net position and how they have changed. Net position – the difference between the City’s assets, deferred inflows/outflows of resources and liabilities – is one way to measure the City’s financial health or position.

- Over time, increases or decreases in the City’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City’s property tax base and the condition of City buildings and other facilities.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**City-Wide Statements (Continued)**

In the City-wide financial statements, the City's activities are shown in two categories:

- *Governmental Activities* – The City's basic services are included here. Property taxes, special assessments and state aids finance most of these activities.
- *Business-Type Activities* – The City's enterprise fund operations are included here. Charges for services finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the City's funds – focusing on its most significant or "major" funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The City has three kinds of funds:

- *Governmental Funds* – The City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the City-wide statements, we provide additional information after the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary Funds* – The City reports three 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 water, sewer and municipal liquor services. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.
- *Fiduciary Fund* – The City reports one fiduciary fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net Position**

The City's net position was \$7,007,763 on December 31, 2015 (see Table A-1).

**Table A-1  
The City's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 3,691,157	\$ 4,213,665	\$ 2,099,770	\$ 1,811,688	\$ 5,790,927	\$ 6,025,353
Capital Assets	2,041,369	2,191,988	5,175,422	4,272,039	7,216,791	6,464,027
Total Assets	5,732,526	6,405,653	7,275,192	6,083,727	13,007,718	12,489,380
Deferred Outflows of Resources	76,929	-	9,961	-	86,890	-
Current Liabilities	754,324	466,689	740,856	98,386	1,495,180	565,075
Long-Term Liabilities	3,574,163	4,225,360	939,692	584,472	4,513,855	4,809,832
Total Liabilities	4,328,487	4,692,049	1,680,548	682,858	6,009,035	5,374,907
Deferred Inflows of Resources	66,422	-	11,388	-	77,810	-
Net Position						
Net Investment in Capital Assets	590,946	778,852	3,608,327	3,621,477	2,944,989	2,556,355
Restricted	1,975,637	2,276,525	-	-	1,975,637	2,276,525
Unrestricted	(1,152,037)	(1,341,773)	1,984,890	1,779,392	2,087,137	2,281,593
Total Net Position	\$ 1,414,546	\$ 1,713,604	\$ 5,593,217	\$ 5,400,869	\$ 7,007,763	\$ 7,114,473

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

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

**Changes in Net Position**

The City-wide total revenues were \$3,064,087 for the year ended December 31, 2015. Property taxes and intergovernmental revenues accounted for 42% of total revenue for the year, while user charges accounted for 56% of total revenue (see Table A-2).

**Table A-2  
Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>REVENUES</b>						
Program Revenues						
Charges for Services	\$ 392,177	\$ 292,982	\$ 1,313,792	\$ 1,205,154	\$ 1,705,969	\$ 1,498,136
Operating Grants and Contributions	50,146	64,640	-	-	50,146	64,640
Capital Grants and Contributions	89,148	140,081	327,080	-	416,228	140,081
General Revenues						
Property Taxes	428,983	426,222	-	-	428,983	426,222
Franchise Fees	500	500	-	-	500	500
Unrestricted State Aid	383,668	382,029	-	-	383,668	382,029
Unrestricted Investment Earnings	7,181	9,900	3,659	5,436	10,840	15,336
Gain on Sale of Capital Assets	5,306	18,115	-	-	5,306	18,115
Miscellaneous	53,488	63,163	8,959	10,290	62,447	73,453
<b>Total Revenues</b>	<b>1,410,597</b>	<b>1,397,632</b>	<b>1,653,490</b>	<b>1,220,880</b>	<b>3,064,087</b>	<b>2,618,512</b>
<b>EXPENSES</b>						
General Government	330,592	299,148	-	-	330,592	299,148
Public Safety	675,142	536,792	-	-	675,142	536,792
Public Works	188,475	157,987	-	-	188,475	157,987
Culture and Recreation	49,419	38,031	-	-	49,419	38,031
Economic Development	24,689	19,172	-	-	24,689	19,172
Interest on Long-Term Debt	224,026	147,535	-	-	224,026	147,535
Water	-	-	250,960	489,550	250,960	489,550
Sewer	-	-	303,468	-	303,468	-
Liquor Store	-	-	776,996	728,546	776,996	728,546
<b>Total Expenses</b>	<b>1,492,343</b>	<b>1,198,665</b>	<b>1,331,424</b>	<b>1,218,096</b>	<b>2,823,767</b>	<b>2,416,761</b>
<b>CHANGE IN NET POSITION BEFORE TRANSFERS</b>	<b>(81,746)</b>	<b>198,967</b>	<b>322,066</b>	<b>2,784</b>	<b>240,320</b>	<b>201,751</b>
Transfers	60,000	(506,731)	(60,000)	506,731	-	-
<b>CHANGE IN NET POSITION</b>	<b>(21,746)</b>	<b>(307,764)</b>	<b>262,066</b>	<b>509,515</b>	<b>240,320</b>	<b>201,751</b>
Net Position - Beginning of Year	1,713,604	2,021,368	5,400,869	4,891,354	7,114,473	6,912,722
Change in Accounting Principle	(277,312)	-	(69,718)	-	(347,030)	-
Net Position - Beginning of Year, As Restated	1,436,292	2,021,368	5,331,151	4,891,354	6,767,443	6,912,722
<b>NET POSITION - END OF YEAR</b>	<b>\$ 1,414,546</b>	<b>\$ 1,713,604</b>	<b>\$ 5,593,217</b>	<b>\$ 5,400,869</b>	<b>\$ 7,007,763</b>	<b>\$ 7,114,473</b>

Total revenues surpassed expenses, increasing net position \$240,320 over last year.



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

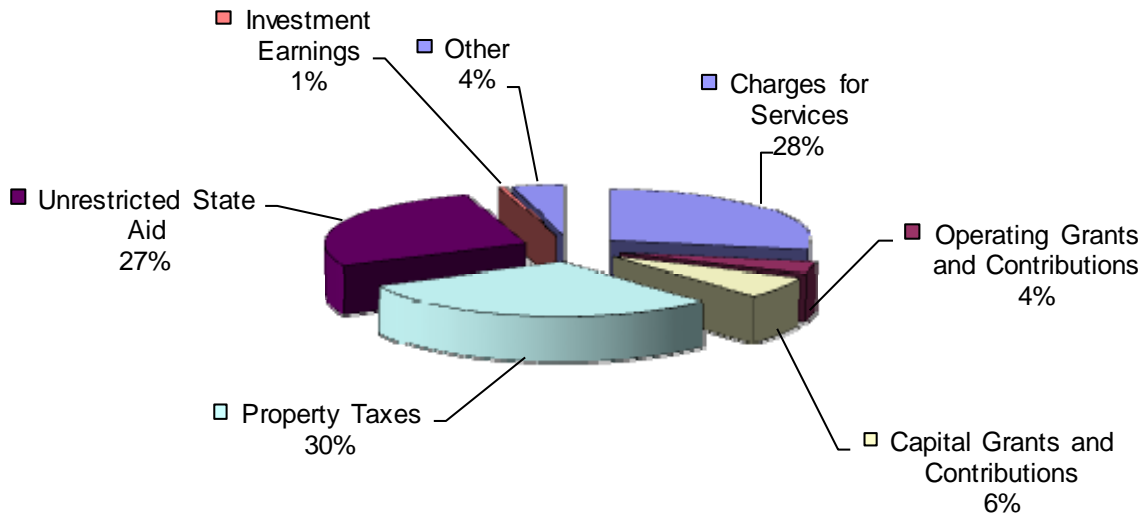
**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

**Changes in Net Position (Continued)**

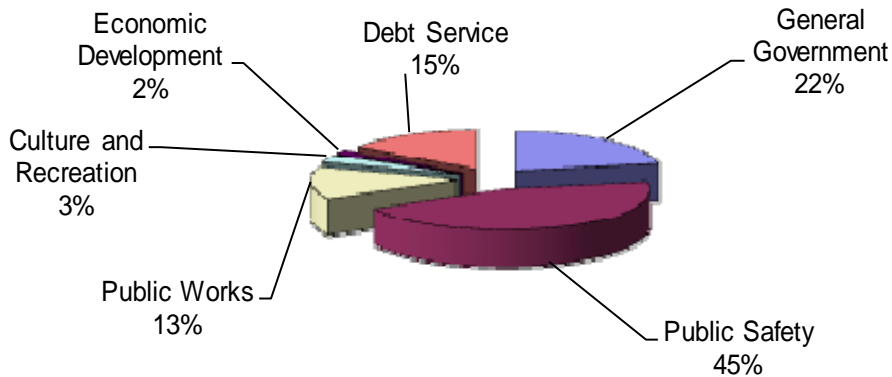
The City-wide cost of all governmental activities this year was \$1,492,343.

- Some of the cost was paid by the users of the City's programs (\$392,177).
- Federal and state government payments (\$50,146) and capital grants and contributions (\$89,148) subsidized certain programs.
- Ad valorem property taxes (\$428,983) and unrestricted state grants (\$383,668) also helped fund the net costs of governmental services.

**Figure A-3 Sources of City's Revenues for Fiscal 2015**



**Figure A-4 City's Expenses for Fiscal 2015**



This Page Has Been Intentionally Left Blank.

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

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

**Changes in Net position (Continued)**

**Table A-3  
Program Expenses and Net Cost of Services**

	Total Cost of Services		Net Revenue (Cost of Services) After Program Revenues	
	2015	2014	2015	2014
	2015	2014	2015	2014
<b>GOVERNMENTAL ACTIVITIES</b>				
General Government	\$ 330,592	\$ 299,148	\$ (274,769)	\$ (146,453.00)
Public Safety	675,142	536,792	(324,416)	(359,319.00)
Public Works	188,475	157,987	(96,087)	(14,587)
Culture and Recreation	49,419	38,031	(34,867)	(24,855)
Economic Development	24,689	19,172	(6,707)	(8,213)
Interest and Fiscal Charges on Debt Service	224,026	147,535	(224,026)	(147,535)
Total	<u>\$ 1,492,343</u>	<u>\$ 1,198,665</u>	<u>\$ (960,872)</u>	<u>\$ (700,962)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Water	\$ 250,960	\$ 489,550	\$ 251,653	\$ (53,571)
Sewer	303,468	-	(9,637)	-
Liquor Store	776,996	728,546	67,432	40,629
Total	<u>\$ 1,331,424</u>	<u>\$ 1,218,096</u>	<u>\$ 309,448</u>	<u>\$ (12,942)</u>

**FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL**

**Governmental Funds**

As the City completed the year, its governmental funds reported a combined fund balance of \$1,465,534.

Revenues for the City's governmental funds were \$2,214,093, while total expenditures were \$2,235,513. Other financing sources (uses) totaled \$165,306.

The General Fund's fund balance increased \$80,770 from the prior year. This is due to an increase in equitable cost sharing revenue.

The Debt Service Fund's fund balance increased \$43,971, due to taxes and special assessments collected being sufficient to cover current year principal and interest payments.

The Capital Projects Fund's fund balance increased \$43,347, due to monies getting transferred in from the General Fund during the current year to pay for current year projects, as budgeted.

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

**FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL (CONTINUED)**

**Business-Type Funds**

Net position increased by \$255,987 in the Water Fund, due to an increase in intergovernmental revenues in 2015.

Net position decreased by \$9,637 in the Sewer Fund, due interest payments on the new bonds.

Net position increased by \$15,716 in the Municipal Liquor Fund, due to an increase in sales in the current year.

**General Fund**

The General Fund includes the primary operations of the City in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund Revenues:

**Table A-4  
General Fund Revenues**

Fund	Year Ended		Change	
	December 31, 2015	December 31, 2014	Increase (Decrease)	Percent
Taxes	\$ 307,333	\$ 305,215	\$ 2,118	0.7 %
Special Assessments	174	-	174	-
Licenses and Permits	1,215	1,126	89	7.9
Intergovernmental	449,664	419,265	30,399	7.3
Charges for Services	79,426	74,232	5,194	7.0
Fines and Forfeits	13,102	10,880	2,222	20.4
Interest	2,340	2,919	(579)	(19.8)
Miscellaneous and Other	302,318	118,338	183,980	155.5
Total General Fund Revenues	<u>\$ 1,155,572</u>	<u>\$ 931,975</u>	<u>\$ 223,597</u>	24.0

Total General Fund revenue increased by \$223,249 or 24.0%, from the previous year. The primary reason for the increase is a reimbursement of \$275,000 from equitable cost sharing in the current year.

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

**FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL (CONTINUED)**

**General Fund (Continued)**

The following schedule presents a summary of General Fund expenditures:

**Table A-5  
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2015	December 31, 2014	Increase (Decrease)	Percent
General Government	\$ 219,290	\$ 202,947	\$ 16,343	8.1 %
Public Safety	585,010	394,155	190,855	48.4
Highway and Streets	104,657	102,681	1,976	1.9
Culture and Recreation	39,265	28,505	10,760	37.7
Miscellaneous	70,398	52,749	17,649	33.5
Capital Outlay	24,473	88,845	(64,372)	(72.5)
Total Expenditures	<u>\$ 1,043,093</u>	<u>\$ 869,882</u>	<u>\$ 173,211</u>	19.9

The General Fund's expenditures increased by \$173,211, or 19.9% from 2014. This increase is due to an increase in public safety expenditures for equitable cost sharing expenditures during the current year.

**General Fund Budgetary Highlights**

Over the course of the year, the City did not revise the annual operating budget.

- Actual revenues were higher than expected due to a slight increase in intergovernmental revenue.
- The actual expenditures were \$41,858 less than budget due to capital outlay items not purchased and street maintenance projects being less than expected.

**CONSTRUCTION PROJECTS AND DEBT SERVICE**

Tax revenues, donations, special assessments, and charges for utility services are used to fund the bond payments for all previous bond issues. The City had no new construction projects during the current year, but the City issued refunding debt and issued debt in the enterprise funds.

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

**FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL (CONTINUED)**

**General Fund (Continued)**

**CAPITAL ASSETS**

By the end of 2015, the City had invested approximately \$7,216,791 (net of accumulated depreciation) in a broad range of capital assets, including buildings, improvements, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 3.A.5 to the financial statements). Total depreciation expense for the year was \$385,284 (including the enterprise funds).

**Table A-6  
The City's Capital Assets**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 51,786	\$ 51,786	\$ 81,854	\$ 81,854	\$ 133,640	\$ 133,640
Construction-in-Progress	3,702	-	1,135,701	19,096	1,139,403	19,096
Buildings	500,271	500,271	384,585	378,698	884,856	878,969
Equipment	1,274,096	1,270,242	185,029	200,196	1,459,125	1,470,438
Infrastructure	1,731,859	1,731,859	-	-	1,731,859	1,731,859
Land Improvements	-	-	12,846	12,846	12,846	12,846
Distribution and Collection System	-	-	7,862,397	7,862,397	7,862,397	7,862,397
Less: Accumulated Depreciation	(1,520,345)	(1,362,170)	(4,486,990)	(4,283,048)	(6,007,335)	(5,645,218)
<b>Total</b>	<b>\$ 2,041,369</b>	<b>\$ 2,191,988</b>	<b>\$ 5,175,422</b>	<b>\$ 4,272,039</b>	<b>\$ 7,216,791</b>	<b>\$ 6,464,027</b>

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

**LONG-TERM LIABILITIES**

At year-end, the City had \$4,977,542 in long-term liabilities outstanding.

- The City's governmental activities and business-type activities general obligation bonds decreased \$319,450 due to regularly scheduled principal payments.

**Table A-7  
The City's Long-Term Liabilities**

	2015	2014	Percentage Change
<b>GOVERNMENTAL ACTIVITIES</b>			
General Obligation Bonds	\$ 3,785,000	\$ 4,540,000	(16.6)%
Compensated Absences Payable	26,095	16,500	58.2
Add: Bond Premiums	76,611	82,182	100.0
Less: Bond Discounts	-	(72)	(100.0)
	<u>3,887,706</u>	<u>4,638,610</u>	
Total Governmental Activities	<u>\$ 3,887,706</u>	<u>\$ 4,638,610</u>	(16.2)
<b>BUSINESS-TYPE ACTIVITIES</b>			
General Obligation Bonds	\$ 1,075,191	\$ 655,000	64.2
Compensated Absences Payable	14,645	7,820	87.3
Less: Bond Discounts	-	(4,438)	(100.0)
	<u>1,089,836</u>	<u>658,382</u>	
Total Business-Type Activities	<u>\$ 1,089,836</u>	<u>\$ 658,382</u>	65.5
Total City-Wide Debt	<u>\$ 4,977,542</u>	<u>\$ 5,296,992</u>	(6.0)

**FACTORS BEARING ON THE CITY'S FUTURE**

Market values appeared to remain stable in 2015 following the 2012 legislative change from the homestead credit reimbursement program to an exemption from property taxes on a portion of qualifying homeowner's market value.

Local government aid (LGA) appears to remain fairly stable for 2016 following an increase of \$8,622 in 2015 and an increase of \$63,684 in 2014.

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

**FACTORS BEARING ON THE CITY'S FUTURE (CONTINUED)**

The City was able to retain the Payable 2016 Tax Levy to a minimal .57% increase following the completion of an extensive Debt Study of the City's debt which recommended refinancing, as well as prepayment of several debts the City currently had in place.

The Water Treatment Rehabilitation Project was started in July 2015 and completed in April of 2016. It was financed through PFA (Public Facilities Authority) with an 80% principal forgiveness loan (grant) and a 20% loan. Total project costs were \$1,654,100. The remaining 20%, or \$330,820, PFA loan will be paid for through water user fees as outlined in the new User Rate Study completed in 2015. The Study revised the structure of the calculation of the user rates from ERUs to Conservation Rate tiers.

The Main Lift Station Replacement Project was also initiated in the fall of 2015 and will be completed the spring of 2016 for a total project cost of \$245,000. The loan will be paid for through sewer user fees as outlined in the new 2015 User Rate Study.

The City's BR&E (Business Retention & Expansion) program through the University of Minnesota continues to be successful.

Per the MN State Demographer, the City of Menahga's population is steadily increasing; 2010 Census – 1,306, 2013 Estimate – 1,330 and 2015 Estimate – 1,339.

Per DEED (MN Department of Employment & Economic Development), Wadena County's March 2016 unemployment rate was 8.3% in comparison to the State's unemployment rate of 4.6% during the same period.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration, City of Menahga, 115 2<sup>nd</sup> street NE, PO Box C, Menahga, Minnesota 56464.



# **BASIC FINANCIAL STATEMENTS**



# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**



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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Greenwood Connections
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,427,604	\$ 1,717,061	\$ 3,144,665	\$ 290,103
Temporary Investments	-	-	-	60,368
Receivables				
Taxes	28,624	-	28,624	-
Accounts	3,045	259,313	262,358	475,952
Special Assessments	1,445,096	25,368	1,470,464	-
Loans	31,104	-	31,104	-
Accrued Interest	304	107	411	-
Note Receivable from Component Unit	615,000	-	615,000	-
Due from Other Governments	-	-	-	-
Due from Component Units	-	-	-	-
Due from Primary Government	-	-	-	-
Internal Balances	-	-	-	-
Inventory	-	81,127	81,127	-
Prepaid Items	40,404	16,794	57,198	117,578
Deferred Charges, Net of Amortization	-	-	-	-
Other Investments	-	-	-	-
Restricted Assets				
Noncurrent Cash and Investments	-	-	-	271,105
Receivables	-	-	-	-
Net Pension Asset	99,976	-	99,976	-
Capital Assets				
Land and Construction in Progress	55,488	1,217,555	1,273,043	-
Other Capital Assets, Net of Depreciation	1,985,881	3,957,867	5,943,748	3,234,923
Total Assets	5,732,526	7,275,192	13,007,718	4,450,029
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related	76,929	9,961	86,890	207,653
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	13,503	18,636	32,139	109,129
Accrued Liabilities	5,206	1,985	7,191	434,092
Customer Deposits	-	600	600	-
Accrued Interest Payable	33,690	2,438	36,128	5,731
Due to Other Governments	579	6,481	7,060	-
Contracts Payable	-	446,374	446,374	-
Retainage Payable	-	45,530	45,530	-
Long-Term Liabilities				
Net Pension Liability	387,803	68,668	456,471	2,161,110
Due within One Year	313,543	150,144	463,687	50,000
Due to the Primary Government	-	-	-	615,000
Due in More than One Year, Net of Unamortized Discount	3,574,163	939,692	4,513,855	-
Total Liabilities	4,328,487	1,680,548	6,009,035	3,375,062
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension Related	66,422	11,388	77,810	395,312
<b>NET POSITION</b>				
Net Investment in Capital Assets	590,946	3,608,327	2,944,989	2,569,923
Restricted For:				
Debt Repayment	1,779,850	-	1,779,850	-
Economic Development	187,149	-	187,149	-
Capital Outlay	8,638	-	8,638	-
Unrestricted	(1,152,037)	1,984,890	2,087,137	(1,682,615)
Total Net Position	\$ 1,414,546	\$ 5,593,217	\$ 7,007,763	\$ 887,308

See accompanying Notes to the Financial Statements.

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 330,592	\$ 9,503	\$ 46,320	\$ -
Public Safety	675,142	346,900	3,826	-
Public Works	188,475	3,240	-	89,148
Culture and Recreation	49,419	14,552	-	-
Economic Development	24,689	17,982	-	-
Debt Service	224,026	-	-	-
Total Governmental Activities	<u>1,492,343</u>	<u>392,177</u>	<u>50,146</u>	<u>89,148</u>
Business-Type Activities				
Water	250,960	175,533	-	327,080
Sewer	303,468	293,831	-	-
Liquor	776,996	844,428	-	-
Total Business-Type Activities	<u>1,331,424</u>	<u>1,313,792</u>	<u>-</u>	<u>327,080</u>
Total Primary Government	<u>\$ 2,823,767</u>	<u>\$ 1,705,969</u>	<u>\$ 50,146</u>	<u>\$ 416,228</u>
Component Unit				
Greenwood Connections	<u>\$ 5,717,786</u>	<u>\$ 5,846,118</u>	<u>\$ -</u>	<u>\$ 3,736</u>

General Revenues

Taxes

  Property Taxes, Levied for General Purpose

  Franchise Fees

  Grants and Contributions not Restricted to Specific Programs

  Unrestricted Investment Earnings

  Miscellaneous

  Gain on Sale of Assets

Transfers

  Total General Revenues and Transfers

  Change in Net Position

Net Position - Beginning of Year

Change in Accounting Principle

Net Position - Beginning of Year, As Restated

Net Position - End of Year

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Greenwood Connections
\$ (274,769)	\$ -	\$ (274,769)	\$ -
(324,416)	-	(324,416)	-
(96,087)	-	(96,087)	-
(34,867)	-	(34,867)	-
(6,707)	-	(6,707)	-
(224,026)	-	(224,026)	-
<u>(960,872)</u>	<u>-</u>	<u>(960,872)</u>	<u>-</u>
-	251,653	251,653	-
-	(9,637)	(9,637)	-
-	67,432	67,432	-
<u>-</u>	<u>309,448</u>	<u>309,448</u>	<u>-</u>
<u>(960,872)</u>	<u>309,448</u>	<u>(651,424)</u>	<u>-</u>
-	-	-	132,068
428,983	-	428,983	-
500	-	500	-
383,668	-	383,668	-
7,181	3,659	10,840	6,510
53,488	8,959	62,447	3,623
5,306	-	5,306	-
60,000	(60,000)	-	-
<u>939,126</u>	<u>(47,382)</u>	<u>891,744</u>	<u>10,133</u>
(21,746)	262,066	240,320	142,201
1,713,604	5,400,869	7,114,473	745,107
(277,312)	(69,718)	(347,030)	-
<u>1,436,292</u>	<u>5,331,151</u>	<u>6,767,443</u>	<u>745,107</u>
<u>\$ 1,414,546</u>	<u>\$ 5,593,217</u>	<u>\$ 7,007,763</u>	<u>\$ 887,308</u>

This Page Has Been Intentionally Left Blank.



## **FUND FINANCIAL STATEMENTS**

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

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 612,216	\$ 363,154	\$ 265,085
Receivables			
Accounts	3,045	-	-
Taxes	23,334	5,290	-
Interest	304	-	-
Special Assessments	-	1,445,096	-
Loans	-	-	-
Notes Receivable from Component Unit	-	615,000	-
Due from Other Funds	4,001	-	-
Advance to Other Funds	-	-	88,744
Prepaid Items	40,404	-	-
<b>Total Assets</b>	<b>\$ 683,304</b>	<b>\$ 2,428,540</b>	<b>\$ 353,829</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>			
Liabilities			
Accounts Payable	\$ 8,623	\$ -	\$ -
Accrued Liabilities	5,206	-	-
Due to Other Funds	-	-	-
Due to Other Governments	579	-	-
Advance from Other Funds	88,744	-	-
<b>Total Liabilities</b>	<b>103,152</b>	<b>-</b>	<b>-</b>
Deferred Inflows of Resources			
Unavailable for Property Taxes	17,571	4,844	-
Unavailable for Notes Receivable	-	615,000	-
Unavailable for Loans	-	-	-
Unavailable for Special Assessments	-	1,437,840	-
<b>Total Deferred Inflows of Resources</b>	<b>17,571</b>	<b>2,057,684</b>	<b>-</b>
Fund Balances			
Nonspendable			
Prepaid Items	40,404	-	-
Restricted for Economic Development	-	-	-
Restricted for Debt Repayment	-	370,856	-
Restricted for Capital Outlay	-	-	8,638
Assigned for Capital Outlay	-	-	345,191
Unassigned	522,177	-	-
<b>Total Fund Balances</b>	<b>562,581</b>	<b>370,856</b>	<b>353,829</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 683,304</b>	<b>\$ 2,428,540</b>	<b>\$ 353,829</b>

See accompanying Notes to Financial Statements

NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 187,149	\$ 1,427,604
-	3,045
-	28,624
-	304
-	1,445,096
31,104	31,104
-	615,000
-	4,001
-	88,744
-	40,404
<u>\$ 218,253</u>	<u>\$ 3,683,926</u>
\$ 4,880	\$ 13,503
-	5,206
4,001	4,001
-	579
-	88,744
<u>8,881</u>	<u>112,033</u>
-	22,415
-	615,000
31,104	31,104
-	1,437,840
<u>31,104</u>	<u>2,106,359</u>
-	40,404
187,149	187,149
-	370,856
-	8,638
-	345,191
<u>(8,881)</u>	<u>513,296</u>
<u>178,268</u>	<u>1,465,534</u>
<u>\$ 218,253</u>	<u>\$ 3,683,926</u>

This Page Has Been Intentionally Left Blank.

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

**TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS** \$ 1,465,534

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. 2,041,369

Some of the City's property taxes, special assessments and notes receivable will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as unavailable revenue in the governmental funds. 2,106,359

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position. (33,690)

Net Pension Liability and related deferred inflows and outflows of resources are recorded only on the Statement of Net Position. Balances at year-end are:

Net Pension Liability	\$ (287,827)	
Deferred Inflows of Resources - Pension Related	(66,422)	
Deferred Outflows of Resources - Pension Related	<u>76,929</u>	(277,320)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Bonds Payable	(3,785,000)	
Unamortized Discounts and Premiums	(76,611)	
Compensated Absences Payable	<u>(26,095)</u>	<u>(3,887,706)</u>

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 1,414,546

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

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND
<b>REVENUES</b>			
Taxes	\$ 307,333	\$ 109,641	\$ -
Tax Increments	-	-	-
Licenses and Permits	1,215	-	-
Intergovernmental	449,664	-	5,519
Charges for Services	79,426	-	-
Fines and Forfeits	13,102	-	-
Special Assessments	174	271,379	-
Interest	2,340	876	2,832
Collections on Notes Receivable	-	635,281	-
Miscellaneous	302,318	-	-
Total Revenues	<u>1,155,572</u>	<u>1,017,177</u>	<u>8,351</u>
<b>EXPENDITURES</b>			
Current			
General Government	219,290	-	-
Public Safety	585,010	-	-
Public Works	104,657	-	-
Culture and Recreation	39,265	-	-
Economic Development	-	-	-
Miscellaneous	70,398	-	236
Capital Outlay	24,473	-	38,675
Debt Service			
Principal	-	855,000	-
Interest	-	197,864	-
Fiscal Agent Fees	-	43,450	-
Total Expenditures	<u>1,043,093</u>	<u>1,096,314</u>	<u>38,911</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	112,479	(79,137)	(30,560)
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond Proceeds	-	830,000	-
Payment on Refunded Bonds	-	(730,000)	-
Proceeds from Sale of Capital Assets	5,306	-	-
Transfers In	60,000	23,108	73,907
Transfers Out	(97,015)	-	-
Total Other Financing Sources (Uses)	<u>(31,709)</u>	<u>123,108</u>	<u>73,907</u>
<b>NET CHANGE IN FUND BALANCES</b>	80,770	43,971	43,347
Fund Balances - Beginning of Year	<u>481,811</u>	<u>326,885</u>	<u>310,482</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 562,581</u>	<u>\$ 370,856</u>	<u>\$ 353,829</u>

See accompanying Notes to Financial Statements

NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ 416,974
13,878	13,878
-	1,215
-	455,183
-	79,426
-	13,102
-	271,553
1,133	7,181
-	635,281
17,982	320,300
<u>32,993</u>	<u>2,214,093</u>
-	219,290
-	585,010
-	104,657
-	39,265
48,586	48,586
5,369	76,003
3,240	66,388
-	855,000
-	197,864
-	43,450
<u>57,195</u>	<u>2,235,513</u>
(24,202)	(21,420)
-	830,000
-	(730,000)
-	5,306
-	157,015
-	(97,015)
<u>-</u>	<u>165,306</u>
(24,202)	143,886
202,470	1,321,648
<u>\$ 178,268</u>	<u>\$ 1,465,534</u>

This Page Has Been Intentionally Left Blank.



**CITY OF MENAUGA, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES  
YEAR ENDED DECEMBER 31, 2015**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 143,886

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 15,556	
Depreciation Expense	<u>(166,175)</u>	(150,619)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences is the treatment of general obligation bonds and related items is as follows:

Issuance of Debt	(830,000)	
Repayment of Refunded Bonds	730,000	
Repayment of Debt Principal	855,000	
Change in Accrued Interest Expense	11,789	
Amortization of Bond Premium/Discount	<u>5,499</u>	772,288

In the statement of activities, compensated absences and other postemployment benefits 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 actually paid).

Change in Compensated Absences		(9,595)
--------------------------------	--	---------

Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measure by the change in Net Pension Liability and the related deferred inflows and outflows of resources.

(8)

Property taxes receivable, special assessments receivable, loans and notes receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are recorded as unavailable in the governmental funds.

Deferred Inflows of Resources - December 31, 2014	(2,884,057)	
Deferred Inflows of Resources - December 31, 2015	<u>2,106,359</u>	<u>(777,698)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ (21,746)

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER	SEWER	MUNICIPAL LIQUOR	TOTALS
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 579,193	\$ 955,014	\$ 182,854	\$ 1,717,061
Receivables				
Accounts	206,047	44,191	9,075	259,313
Accrued Interest	50	57	-	107
Special Assessments	9,957	15,411	-	25,368
Inventories	-	-	81,127	81,127
Prepaid Items	4,815	4,925	7,054	16,794
Total Current Assets	800,062	1,019,598	280,110	2,099,770
<b>NONCURRENT ASSETS</b>				
Capital Assets				
Land	23,071	24,994	33,789	81,854
Building and Improvements	3,480,813	4,381,584	397,431	8,259,828
Machinery and Equipment	73,337	56,926	54,766	185,029
Construction in Process	922,703	212,998	-	1,135,701
	4,499,924	4,676,502	485,986	9,662,412
Less: Accumulated Depreciation	(1,897,127)	(2,266,955)	(322,908)	(4,486,990)
Net Capital Assets	2,602,797	2,409,547	163,078	5,175,422
Total Assets	3,402,859	3,429,145	443,188	7,275,192
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related	1,594	1,594	6,773	9,961
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable	11,778	5,723	1,135	18,636
Contracts Payable	386,765	59,609	-	446,374
Retainage Payable	37,509	8,021	-	45,530
Salaries and Wages Payable	390	390	1,205	1,985
Due to Other Governments	144	41	6,296	6,481
Customer Deposits	288	312	-	600
Accrued Interest Payable	1,199	1,239	-	2,438
Accrued Compensated Absences	966	966	5,392	7,324
Bonds Payable	12,820	130,000	-	142,820
Total Current Liabilities	451,859	206,301	14,028	672,188
<b>LONG-TERM LIABILITIES</b>				
Bonds Payable (Net of Unamortized Bond Discounts)	172,371	760,000	-	932,371
Net Pension Liability	10,987	10,987	46,694	68,668
Accrued Compensated Absences	965	965	5,391	7,321
Total Long-Term Liabilities	184,323	771,952	52,085	1,008,360
Total Liabilities	636,182	978,253	66,113	1,680,548
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension Related	1,822	1,822	7,744	11,388
<b>NET POSITION</b>				
Net Investment in Capital Assets	1,993,332	1,451,917	163,078	3,608,327
Unrestricted	773,117	998,747	213,026	1,984,890
Total Net Position	\$ 2,766,449	\$ 2,450,664	\$ 376,104	\$ 5,593,217

See accompanying Notes to Financial Statements.

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER	SEWER	MUNICIPAL LIQUOR	TOTALS
<b>SALES AND COST OF SALES</b>				
Sales	\$ -	\$ -	\$ 844,428	\$ 844,428
Cost of Sales	-	-	(529,368)	(529,368)
Gross Profit	-	-	315,060	315,060
<b>OPERATING REVENUES</b>				
Charges for Services	168,097	281,070	-	449,167
Miscellaneous	-	-	370	370
Total Operating Revenues	168,097	281,070	370	449,537
<b>OPERATING EXPENSES</b>				
Personal Services	54,364	54,198	160,126	268,688
Materials and Supplies	23,589	16,682	26,386	66,657
Repairs and Maintenance	12,214	33,158	3,311	48,683
Insurance	2,125	3,675	12,658	18,458
Contract Services - Other	47,700	5,311	10,145	63,156
Depreciation	87,845	121,811	9,453	219,109
Licenses and Permits	258	1,963	588	2,809
Utilities	17,341	5,928	21,238	44,507
Miscellaneous Expense	4,209	676	3,839	8,724
Total Operating Expenses	249,645	243,402	247,744	740,791
<b>OPERATING INCOME</b>	(81,548)	37,668	67,686	23,806
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental Revenues	327,080	-	-	327,080
Special Assessments	7,436	10,153	-	17,589
Investment Earnings	3,189	2,608	470	6,267
Interest	(1,199)	(60,066)	-	(61,265)
Miscellaneous	1,029	-	7,560	8,589
Total Nonoperating Revenues (Expenses)	337,535	(47,305)	8,030	298,260
<b>INCOME BEFORE TRANSFERS</b>	255,987	(9,637)	75,716	322,066
<b>TRANSFERS OUT</b>	-	-	(60,000)	(60,000)
<b>CHANGE IN NET POSITION</b>	255,987	(9,637)	15,716	262,066
Net Position - Beginning of Year	2,521,617	2,471,456	407,796	5,400,869
Change in Accounting Principle	(11,155)	(11,155)	(47,408)	(69,718)
Total Net Position - Beginning of Year, as Restated	2,510,462	2,460,301	360,388	5,331,151
<b>NET POSITION - END OF YEAR</b>	<u>\$ 2,766,449</u>	<u>\$ 2,450,664</u>	<u>\$ 376,104</u>	<u>\$ 5,593,217</u>

See accompanying Notes to Financial Statements.

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER	SEWER	MUNICIPAL LIQUOR	TOTALS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Customers	\$ 164,211	\$ 275,211	\$ 841,276	\$ 1,280,698
Cash Paid to Employees for Services	(52,677)	(52,683)	(155,738)	(261,098)
Cash Paid to Suppliers for Goods and Services	(101,342)	(63,497)	(614,152)	(778,991)
Net Cash Provided (Used) by Operating Activities	10,192	159,031	71,386	240,609
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Intergovernmental	150,473	-	-	150,473
Transfers to Other Funds	-	-	(60,000)	(60,000)
Other Miscellaneous Receipts	1,029	-	7,560	8,589
Net Cash Provided (Used) by Noncapital Financing Activities	151,502	-	(52,440)	99,062
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and Construction of Capital Assets	(488,574)	(136,127)	(5,887)	(630,588)
Proceeds from Issuance of Long-Term Debt	185,191	890,000	-	1,075,191
Special Assessments	3,680	4,045	-	7,725
Interest Paid	-	(63,660)	-	(63,660)
Principal Payments on Long-Term Debt	-	(655,000)	-	(655,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(299,703)	39,258	(5,887)	(266,332)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest Received	3,191	2,608	470	6,269
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(134,818)	200,897	13,529	79,608
Cash and Cash Equivalents - Beginning of Year	714,011	754,117	169,325	1,637,453
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 579,193</b>	<b>\$ 955,014</b>	<b>\$ 182,854</b>	<b>\$ 1,717,061</b>

See accompanying Notes to Financial Statements.

**CITY OF MENAHGA, MINNESOTA  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2015**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER	SEWER	MUNICIPAL LIQUOR	TOTALS
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (81,548)	\$ 37,668	\$ 67,686	\$ 23,806
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	87,845	121,811	9,453	219,109
(Increase) Decrease in Assets:				
Accounts Receivable	(3,886)	(5,859)	(3,522)	(13,267)
Inventories	-	-	(1,310)	(1,310)
Prepaid Items	(3,310)	(1,868)	(2,250)	(7,428)
Deferred Outflows - Pension	(1,099)	(1,099)	(4,669)	(6,867)
Increase (Decrease) in Liabilities:				
Accounts Payable	9,325	5,723	(3,099)	11,949
Accrued Liabilities	198	26	164	388
Accrued Compensated Absences	1,429	1,429	3,967	6,825
Due to Other Governments	79	41	40	160
Net Pension Liability	(663)	(663)	(2,818)	(4,144)
Deferred Inflows - Pension	1,822	1,822	7,744	11,388
Net Cash Provided (Used) by Operating Activities	<u>\$ 10,192</u>	<u>\$ 159,031</u>	<u>\$ 71,386</u>	<u>\$ 240,609</u>

See accompanying Notes to Financial Statements.

**CITY OF MENAHGA, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
DECEMBER 31, 2015**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and Investments	<u>\$ 1,695</u>
<b>LIABILITIES</b>	
Cash Held for Other Agencies	<u>\$ 1,695</u>

*See accompanying Notes to Financial Statements.*

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Financial Reporting Entity

The City of Menahga (City) was incorporated under the laws of the State of Minnesota and operates under a Mayor-Council form of government. The City is vested in a mayor and a four person elective council. The financial reporting entity consists of the City (primary government) and the component unit (legally separate organization) for which the primary government is financially accountable. The component unit discussed below is included in the City's reporting entity, because of the significance of the operational or financial relationship with the City.

Component Units

Component units are legally separate entities for which the City (Primary Government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the Primary Government misleading. The criteria used to determine if the Primary Government is financially accountable for a component unit include whether or not the Primary Government appoints a voting majority of an organization's governing body and has the ability to impose its will on the governing body; or there is a specific financial benefit or to impose a specific financial burden on the Primary Government.

Greenwood Connections is accounted for as a discretely presented component unit. All amounts reflecting financial position and results of operations related to Greenwood Connections in these financial statements is as of and for the year end September 30, 2015. A Board of Directors that is appointed by the City Council of the City of Menahga, Minnesota, governs Greenwood Connections. The Board is responsible for the administration, maintenance, and operations of Greenwood Connections subject to the authority of the City Council as provided in Minnesota Statutes § 447.41.

Greenwood Connections consists of the following:

Green Pine Acres Nursing Home (the Home) is a 65-bed licenses skilled nursing facility.

Woodside Major (the Apartments) is a 37-unit assisted living and congregate care apartment project attached to the Home.

Menahga Home Health is a Class F licensed home care agency that provides services to residents of the Apartments and the community.

Green Pine Acres Adult Day Care operates day service for the care of adults 18 years of age and older.

Complete financial statements of Greenwood Connections are prepared and are on file with the City.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 about the primary government, except for fiduciary activities, and its component unit. These statements include the financial activities of the overall City government. 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 to external parties for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes other charges between the various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus and Basis of Accounting**

The government-wide, proprietary fund and the fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.



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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. Measurement Focus and Basis of Accounting (Continued)

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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in 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 City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment.

The City reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the water treatment services to the City's residents and businesses.

Sewer Fund – The Sewer Fund accounts for the activities of the wastewater treatment services to the City's residents and businesses

Municipal Liquor Fund – The Municipal Liquor Fund accounts for the operations of the City's liquor store.

Additionally, the City reports the following fiduciary fund type:

Agency Fund – The Hooked on Fishing Fund is used to account for receipts and disbursements for the private, nonprofit organization account. The Agency Fund is custodial in nature (assets equal liabilities).

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. Measurement Focus and Basis of Accounting (Continued)

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. The principal operating revenue of the City's enterprise funds are charges to customers for sales of goods and services. 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.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

**1. Cash and Cash Equivalents**

Cash balances from all funds (including cash equivalents) are invested to the extent available in various securities as authorized by Minnesota Statutes.

Cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts.

For the purpose of the statement of cash flows of the proprietary fund types, the City considers all cash and investments under the classification of current assets to be cash and cash equivalents. Cash and cash equivalents consist of checking and savings, cash on hand, and money market savings accounts.

Temporary investments include certificates of deposit with an original maturity of three to twelve months, excluding designated cash and investments. Temporary investments are recorded at fair value.

**2. 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 fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

**3. Long-Term Interfund Receivables/Payables**

These receivables and payables are classified as "advance to other funds" or "advance from other funds" on the fund financial statements. These amounts are provided with a requirement for repayment.

**4. Accounts Receivable**

No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

**5. Taxes Receivable**

Taxes which remain unpaid are classified as delinquent taxes receivable. Delinquent taxes represent the past seven years of uncollected tax years. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is unavailable because it is not known to be available to finance the operations of the City in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

**Property Tax Collection Calendar**

The City levies its property tax for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. The County is the collecting agency for the levy and then remits the collections to the City. All taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The county auditor makes up the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The county auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The county auditor turns over a list of taxes and special assessments to be collected on each parcel of property to the county treasurer in January of each year. Property owners are required to pay one-half of their real estate taxes by May 15 and the balance by October 15.

Within 30 days after the May settlement, the county treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City treasurer. The county treasurer must pay the balance to the City treasurer within 60 days after settlement, provided that after 45 days interest begins to accrue.

Within ten business days after November 15, the county treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

**6. Special Assessments**

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with Minnesota Statutes. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year. Property owners are allowed to prepay future installments without interest or prepayment penalties.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

**6. Special Assessments (Continued)**

In the governmental fund financial statements, special assessment levies are recorded as a receivable and as unavailable revenue at the time of the levy. Unavailable revenue is recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

Delinquent special assessments represent the past seven years of uncollected special assessments that have not been collected within 60 days of year-end.

**7. Inventory**

The costs of inventory items are recognized as expenditures in governmental funds when consumed and as expenses in the proprietary funds when used. Inventories in the liquor fund are presented at lower of cost or market, using first in/first out (FIFO) method.

**8. Prepaid Items**

Payments made to vendors for services that will benefit future periods are recorded as prepaid items. This amount is considered nonspendable fund balance on the fund level statements.

**9. 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 are defined by the government with an initial, individual cost of more than described in the table below. Infrastructure assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets	Threshold
Buildings	\$ 25,000
Improvements	25,000
Infrastructure	100,000
Machinery and Equipment	2,500
Vehicles	2,500
Land	All

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

**9. Capital Assets (Continued)**

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	25-40
Improvements	7-30
Infrastructure	20-40
Machinery and Equipment	5-20
Water and Wastewater Systems	25

**10. Deferred Outflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs.

**11. Compensated Absences**

Compensated absences is comprised of accumulated paid time off (PTO). All full-time employees are eligible for PTO and all part-time employees are eligible for PTO in proportion to hours worked. Full-time employees earn PTO from 136 to 312 hours per year, depending on length of service. Employees can carry over up to 512 hours of PTO into the next year, any hours over the maximum of 512 hours is calculated using the employees current pay rate and transferred into a health care savings plan or up to 40 hours can be paid out at year-end. Upon retirement, the employee will be paid only for PTO accrued up to the retirement date.

**12. 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 amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 sources while discounts 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.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

**13. Deferred Inflows of Resources**

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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.

**14. 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. 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.

**15. Net Position and Fund Balance**

Net position represents the difference between assets, deferred inflows/outflows of resources, and liabilities in the government-wide financial statements, the proprietary fund statements, and the fiduciary fund statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. A reclassification of \$1,746,188 was made between this net position class and unrestricted net position in the column on the statement of net position to recognize the portion of debt attributable to capital assets contributed from governmental activities to business-type activities. Net position is reported as restricted in the government-wide financial statements and proprietary fund statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

**15. Net Position and Fund Balance (Continued)**

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts not in spendable form or legally or contractually required to be maintained intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the council. The council has authorized the City Clerk to assign fund balance. Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. The City's policy states that its goal is to have sufficient balance in the operating fund with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. When restricted and unrestricted fund balance is available for use, it is the City's policy to first use restricted fund balance. When committed, assigned, and unassigned fund balance is available for use, it is the City's policy to use committed, assigned, and finally unassigned fund balance.

**16. 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. Actual results could differ from those estimates.

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

- A. Budgetary Information

An annual budget is adopted for the General Fund. Budget appropriations lapse at the end of the year. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Any transfers of budgeted amounts between departments of the general fund, transfers between other funds, and any revisions that alter the total expenditures of any department or fund must be approved by the City Council. The legal level of control is the fund level. Management is not allowed to change the budget without council approval.

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

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

A. Budgetary Information (Continued)

Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for other governmental funds.

B. Deficit Fund Equity

The following funds have a deficit fund balance at December 31, 2015:

Safe Routes to School	\$	3,292
Tax Increment Finance District 1-4		50
Tax Increment Finance District 1-6		5,539

The City plans to eliminate these deficits through future revenues or transfers.

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

A. Assets

**1. Deposits**

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the City maintains deposits at financial institutions which are authorized by the City Council.

Custodial Credit Risk – 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 and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.



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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

**1. Deposits (Continued)**

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The City's deposits in banks at December 31, 2015 were entirely covered by federal depository insurance or by pledged collateral held by the bank's agent in the City's name in amounts equal to at least 110% of the amount in excess of the federal depository insurance, as required by Minnesota Statutes.

**2. Investments**

The City does not have an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members 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.

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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

**2. Investments (Continued)**

At December 31, 2015, the City did not have any investments. Deposits consist of the following at December 31, 2015:

	Carrying Value
Cash and cash equivalents	
Checking	\$ 2,301,431
Petty Cash	3,234
Certificates of Deposit	840,000
Total	\$ 3,144,665

	Balance
Cash and Cash Equivalents - Governmental Funds	\$ 1,427,604
Cash and Cash Equivalents - Proprietary Funds	1,717,061
Total Cash and Cash Equivalents	\$ 3,144,665

**3. Interfund Receivables, Payables, and Transfers**

At December 31, 2015, due from/to other funds were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 4,001

The interfund receivables/payables noted above are related to the elimination of negative cash balances at year-end.

Interfund transfers for the year ended December 31, 2015, were as follows:

	Transfer In:			
	Primary Government			
	General Fund	Capital Projects Fund	Debt Service Funds	Total
Transfer Out:				
<u>Primary Government</u>				
General Fund	\$ -	\$ 73,907	\$ 23,108	\$ 97,015
Liquor Fund	60,000	-	-	60,000
Total	\$ 60,000	\$ 73,907	\$ 23,108	\$ 157,015

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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

**4. Interfund Receivables, Payables, and Transfers (Continued)**

The purpose of the transfers above were to provide funding for operating purposes and to maintain balances of unspent budget dollars.

Interfund advances for the year ended December 31, 2015, were as follows:

Advance To	Advance From	Amount
General Fund	Capital Projects Fund	\$ 88,744

The purpose of the advance from the Capital Projects Fund was to finance the construction in progress for the Restroom Project at the Park. The advance has a repayment schedule set up with payments at 2.30% interest and maturing in February of 2028.

**5. Note Receivable**

The City issued debt for Greenwood Connections. A note receivable from the component unit has been recorded in the financial statements of the City, with a balance of \$ as of December 31, 2015. The terms of the repayment of this note by the component unit corresponds to the City's repayment of the related debt described in Note 3, B, 1.

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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

**6. Capital Assets**

Capital asset activity for the Primary Government (governmental activities) for the year ended December 31, 2015, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 51,786	\$ -	\$ -	\$ 51,786
Construction in Progress	-	3,702	-	3,702
Total Capital Assets, Not Being Depreciated:	51,786	3,702	-	55,488
Capital Assets, Being Depreciated				
Buildings	500,271	-	-	500,271
Equipment	1,270,242	11,854	8,000	1,274,096
Infrastructure	1,731,859	-	-	1,731,859
Total Capital Assets, Being Depreciated	3,502,372	11,854	8,000	3,506,226
Less Accumulated Depreciation for				
Buildings	226,910	11,754	-	238,664
Equipment	851,251	108,654	8,000	951,905
Infrastructure	284,009	45,767	-	329,776
Total Accumulated Depreciation	1,362,170	166,175	8,000	1,520,345
Total Capital Assets, Being Depreciated, Net	2,140,202	(154,321)	-	1,985,881
Governmental Activities Capital Assets, Net	<u>\$ 2,191,988</u>	<u>\$ (150,619)</u>	<u>\$ -</u>	<u>\$ 2,041,369</u>

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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

**6. Capital Assets (Continued)**

Capital asset activity for the Primary Government (business-type activities) for the year ended December 31, 2015, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 81,854	\$ -	\$ -	\$ 81,854
Construction in Process	19,096	1,116,605	-	1,135,701
Total Capital Assets, Not Being Depreciated	100,950	1,116,605	-	1,217,555
Capital Assets, Being Depreciated				
Land Improvements	12,846	-	-	12,846
Building and Improvements	378,698	5,887	-	384,585
Equipment	200,196	-	15,167	185,029
Distribution and Collection System	7,862,397	-	-	7,862,397
Total Capital Assets, Being Depreciated	8,454,137	5,887	15,167	8,444,857
Less Accumulated Depreciation For				
Land Improvements	12,846	-	-	12,846
Building and Improvements	245,843	9,453	-	255,296
Equipment	184,516	8,720	15,167	178,069
Distribution and Collection System	3,839,843	200,936	-	4,040,779
Total Accumulated Depreciation	4,283,048	219,109	15,167	4,486,990
Total Capital Assets, Being Depreciated, Net	4,171,089	(213,222)	-	3,957,867
Business-Type Activities Capital Assets, Net	\$ 4,272,039	\$ 903,383	\$ -	\$ 5,175,422

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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

**6. Capital Assets (Continued)**

Depreciation expense was charged to functions/programs of the Primary Government as follows:

Governmental Activities:	
General Government	\$ 29,371
Public Safety	77,728
Public Works	49,124
Culture and Recreation	9,952
Total Depreciation Expense - Governmental Activities	\$ 166,175
Business-Type Activities:	
Water	\$ 87,845
Sewer	121,811
Liquor	9,453
Total Depreciation Expense - Business-Type Activities	\$ 219,109

B. Liabilities

**1. Long-Term Debt**

**Primary Government**

The City issues general obligation bonds to provide funds for economic development and for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full-faith and credit of the City. Interest expense of \$2,661 was capitalized out of \$226,857 total interest cost for the year in the governmental and business-type funds.

In 2015, the City issued \$830,000 General Obligation Improvement Refunding Bonds, Series 2015B. The bond was issued for a current refunding of 2009 General Obligation Improvement Bonds of \$790,000. The total cash loss to the City attributable to the refunding and defeasance of this bond is \$59,350 with a net present value loss of approximately \$55,200.

In 2015, the City issued \$890,000 General Obligation Sewer Revenue and Refunding Bonds, Series 2015A. The bond was issued for a current project for \$275,000 and a current refunding of \$615,000 for the 2007 General Obligation Sewer Revenue Bonds of \$655,000. The total cash savings to the City attributable to the refunding and defeasance of this bond is \$44,625 with a net present value savings of approximately \$46,000.

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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

**Primary Government (Continued)**

General obligation bonds currently outstanding for the Primary Government are as follows:

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
<b>BONDED INDEBTEDNESS</b>			
<b>PRIMARY GOVERNMENT</b>			
<b>GENERAL OBLIGATION BONDS</b>			
G.O. Improvement Bonds, Series 2006	4.05%	\$ 375,000	\$ 90,000
G.O. Improvement Bonds, Series 2012A	2.0-3.0%	815,000	615,000
G.O. Improvement Bonds, Series 2012A	2.0-2.38%	185,000	120,000
G.O. Improvement Bonds, Series 2013A	3.0-4.0%	1,980,000	1,875,000
G.O. Improvement Bonds, Series 2013B	3.0-4.0%	270,000	255,000
G.O. Improvement Refunding Bonds, Series 2015B	0.85-3.0%	830,000	830,000
Total Primary Government General Obligation Bonds			<u>3,785,000</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b>GENERAL OBLIGATION REVENUE BONDS</b>			
G.O. Sewer Revenue Bonds, Series 2015A	0.5-1.5%	275,000	275,000
G.O. Sewer Refunding Bonds, Series 2015A	0.5-1.5%	615,000	615,000
PFA Clean Water Revolving Loan 2015	0.28-2.88%	212,013	<u>185,191</u>
Total Long-Term Debt - Business-Type Activities			<u>1,075,191</u>
Total Government-Wide Long-Term Liabilities			<u>\$ 4,860,191</u>

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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

**Other Long-Term Liabilities (Continued)**

A summary of long-term debt transactions for the year ended December 31, 2015, is as follows:

<b>PRIMARY GOVERNMENT</b>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds, Including					
Refunding Bonds	\$ 4,540,000	\$ 830,000	\$ 1,585,000	\$ 3,785,000	\$ 300,000
Less: Unamortized Discounts	(72)	-	(72)	-	-
Add: Unamortized Premiums	82,182	-	5,571	76,611	-
Compensated Absences	16,500	31,652	22,057	26,095	13,543
Governmental Activity Long-Term Liabilities	<u>\$ 4,638,610</u>	<u>\$ 861,652</u>	<u>\$ 1,612,556</u>	<u>\$ 3,887,706</u>	<u>\$ 313,543</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds	\$ 655,000	\$ 1,075,191	\$ 655,000	\$ 1,075,191	\$ 142,820
Less: Unamortized Discounts	(4,438)	-	(4,438)	-	-
Compensated Absences	7,820	18,313	11,488	14,645	7,324
Business-Type Activity Long-Term Liabilities	<u>\$ 658,382</u>	<u>\$ 1,093,504</u>	<u>\$ 662,050</u>	<u>\$ 1,089,836</u>	<u>\$ 150,144</u>



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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

**1. Long-Term Debt (Continued)**

**Other Long-Term Liabilities (Continued)**

Annual debt service requirements to maturity for general obligation bonds and capital lease obligations for the Primary Government are as follows:

General Obligation Bonds			
Governmental Activities			
	Principal	Interest	Total
2016	\$ 300,000	\$ 105,611	\$ 405,611
2017	290,000	101,384	391,384
2018	250,000	95,646	345,646
2019	260,000	92,230	352,230
2020	260,000	83,970	343,970
2021-2025	1,345,000	303,266	1,648,266
2026-2030	1,080,000	82,488	1,162,488
Total	\$ 3,785,000	\$ 864,595	\$ 4,649,595

General Obligation Bonds			
Business-Type Activities			
	Principal	Interest	Total
2016	\$ 142,820	\$ 10,578	\$ 153,398
2017	135,000	11,655	146,655
2018	140,000	10,725	150,725
2019	146,000	9,450	155,450
2020	141,000	7,925	148,925
2021-2025	341,000	16,855	357,855
2026-2030	85,000	7,050	92,050
2031-2035	90,000	2,700	92,700
Total	\$ 1,220,820 *	\$ 76,938	\$ 1,297,758

\* This amount includes the full \$330,820 of the 2015 PFA Revenue Note issued to the City, which is comprised of \$185,191 that has been drawn by the City as of December 31, 2105 and \$145,629 which is what is left to be drawn.

**2. Risk Management**

The City is exposed to various risks of loss related to: torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City participates in a group workers' compensation plan with the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota cities. The plan is administered by Berkley Administrators.

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

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

**2. Risk Management (Continued)**

The workers' compensation plan is self-sustaining based on the premiums charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claim liabilities and other expenses. The City has entered into a regular premium plan with LMCIT. The City pays its premium annually based on current year budgeted salaries with premium adjustment after annual actual salaries are determined. All charges are distributed to the City department based upon salary and workers compensation class code. LMCIT is responsible for Workers' Compensation Reinsurance Association premiums and for the general administrative and claim expenses.

The City continues to carry commercial insurance for employee health, standard liability, property, and automotive insurance. Settlements have not exceeded coverage for each of the last three fiscal years. There has been no substantial change in coverage from the prior year.

**NOTE 4 DEFINED BENEFIT PENSION PLANS**

A. 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.

**1. General Employees Retirement Fund (GERF)**

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

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

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

A. Plan Description (Continued)

**2. Public Employees Police and Fire Fund (PEPFF)**

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

B. 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.

**1. GERS Benefits**

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

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

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

B. Benefits Provided (Continued)

**2. PEPFF Benefits**

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

C. Contributions

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

**1. GEF 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 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City contributions to the GEF for the year ended December 31, 2015, were \$24,477. The contributions were equal to the required contributions as set by state statute.

**2. PEPFF Contributions**

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City contributions to the PEPFF for the year ended December 31, 2015, were \$24,373. The City contributions were equal to the required contributions as set by state statute.

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

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs

**1. GERF Pension Costs**

At December 31, 2015, the City reported a liability of \$274,674 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was .0053% which was a decrease of .0009% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$26,044 for its proportionate share of the GERF's pension expense.

The proportionate share of GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 13,848
Changes of Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	26,002	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	31,708
City Contributions Made Subsequent to the Measurement Date	13,841	-
Total	<u>\$ 39,843</u>	<u>\$ 45,556</u>

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

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

A. Pension Costs (Continued)

**1. GERP Pension Costs (Continued)**

\$13,841 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 ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December, 31	Pension Expense Amount
2016	\$ (8,685)
2017	(8,685)
2018	(8,685)
2019	6,501

**2. PEPFF Pension Costs**

At December 31, 2015, the City reported a liability of \$181,797 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City proportion was .016% which was the same percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$31,328. The City also recognized \$1,440 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

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

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

**2. PEPFF Pension Costs (Continued)**

At December 31, 2015, the City's proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources is as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 29,481
Changes of Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	31,676	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	-
City Contributions Made Subsequent to the Measurement Date	13,371	-
Total	<u>\$ 45,047</u>	<u>\$ 29,481</u>

\$13,371 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 ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December, 31	Pension Expense Amount
2016	\$ 2,022
2017	2,022
2018	2,022
2019	2,022
2020	(5,893)

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

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions

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

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

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

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



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

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45 %	5.5 %
International Stocks	15	6.0
Bonds	18	1.5
Alternative Assets	20	6.4
Cash	2	0.5
Totals	100 %	

F. Discount Rate

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

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

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

G. Pension Liability Sensitivity

The following presents the City 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 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:

Description	1% Decrease (6.9%)	Current Discount Rate (7.9%)	1% Increase (8.9%)
City Proportionate Share of the GERF			
Net Pension Liability:	\$ 431,884	\$ 274,674	\$ 144,841
City Proportionate Share of the PEPFF			
Net Pension Liability:	354,325	181,797	39,260

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN**

A. Plan Description

Firefighters of the City of Menahga are members of the Menahga Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2014, membership includes 22 active participants and 5 deferred employees entitled to benefit but not yet receiving them.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$1,100 for each year of active Fire Department service 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.

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

**NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN  
(CONTINUED)**

**B. Benefits Provided (Continued)**

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with ten years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$1,100 for each year the member was an active member of the Menahga Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

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

**C. Contributions**

*Minnesota Statutes* Chapter 69.772 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 10-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). The minimum contribution from the City and state aid is determined as follows:

	Normal Cost	
+	Amortization Payment on Unfunded Accrued Liability Prior to Any Change	
+	Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change	
+	Administrative Expenses	
-	Anticipated State Aid	
-	Projected Investment Earnings	
=	Total Contribution Required	

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

**NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN  
(CONTINUED)**

C. Contributions (Continued)

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$12,857 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2014. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2014 was \$-0-.

D. Pension Costs

At December 31, 2015, the City reported an asset of \$99,976 for the Association's net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$4,735 for the year ended December 31, 2015. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	2,773
City Contributions Subsequent to the Measurement Date	2,000	-
Total	<u>\$ 2,000</u>	<u>\$ 2,773</u>

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

**NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN  
(CONTINUED)**

D. Pension Costs (Continued)

The City contributions to the Association subsequent to the measurement date, \$2,000 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (693)
2017	(693)
2018	(693)
2019	(694)

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/14
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
<b>Actuarial Assumptions:</b>	
Discount Rate	4.50%
Investment Rate of Return	4.50%
20-Year Municipal Bond Yield	3.50%
Age of Service Retirement	50

The best-estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best-estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

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

**NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN  
(CONTINUED)**

E. Actuarial Assumptions (Continued)

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Portfolio Weight	Expected Class Return
Cash	10.00 %	2.00 %
Fixed Income	68.00	4.00
Equities	22.00	7.50
Total Portfolio	<u>100.00 %</u>	4.50

F. Discount Rate

The discount rate used to measure the total pension liability was 4.50%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

G. Pension Asset Sensitivity

The following presents the City's proportionate share of the net pension asset of the Association, calculated using the discount rate of 4.50%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.50%) or one percentage point higher (5.50%) than the current rate:

	1% Decrease	Selected Discount Rate	1% Increase
Net Pension Liability (Asset)	\$ (92,764)	\$ (99,976)	\$ (106,996)
Discount Rate	3.50%	4.50%	5.50%

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

**NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN  
(CONTINUED)**

H. Plan's Fiduciary Net Position

Information about the Plan's fiduciary net position is as follows:

	December 31, 2014
<b>Assets</b>	
Cash	\$ 8,755
Certificates of Deposit	12,796
State Board of Investments	232,464
Mutual Funds	54,623
Accounts Receivable	8,504
Total Assets	\$ 317,142
 <b>Net Position</b>	
Unrestricted	\$ 317,142
 <b>Revenues</b>	
Fire State Aid	\$ 12,857
State 10% Supplemental Reimbursement	-
Municipal Contribution	2,000
Investment Earnings	16,655
Total Revenues	31,512
 <b>Expenses</b>	
Pension Distributions	-
Investment Expense	-
Administrative Expense	-
Total Expenses	-
Change in Net Position	31,512
Beginning Net Position	285,630
Ending Net Position	\$ 317,142

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

**NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN  
(CONTINUED)**

H. Plan's Fiduciary Net Position (Continued)

Information about the changes in the Plan's net pension asset is as follows:

<b><u>Total Pension Liability</u></b>	
Service Cost	\$ 13,237
Interest	8,767
<b>Net Change in Total Pension Liability</b>	<u>22,004</u>
Total Pension Liability - Beginning	195,162
Total Pension Liability - Ending (a)	<u>217,166</u>
<b><u>Plan Fiduciary Net Position</u></b>	
Municipal Contributions	2,000
State Contributions	12,857
Net Investment Income	13,188
Other Changes	3,467
<b>Net Change in Fiduciary Net Position</b>	<u>31,512</u>
<b>Fiduciary Net Position - Beginning</b>	<u>285,630</u>
<b>Fiduciary Net Position - Ending (b)</b>	<u>317,142</u>
<b>Association's Net Pension Liability/(Asset) - Ending (a) - (b)</b>	<u><u>\$ (99,976)</u></u>

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT**

**Greenwood Connections**

Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by Greenwood Connections (the Organization). The Organization's fiscal year ended on September 30, 2015.

Basis of Accounting

Greenwood Connections utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis.

Cash and Cash Equivalents

The Organization considers all money market accounts and certificates of deposit with maturity dates of three months or less to be cash equivalents. Certificates of Deposit are stated at cost, which approximates market value. The Organization deposits its temporary cash investments in financial institutions.



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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Temporary Investments

Temporary investments include certificates of deposit with an original maturity of 3 to 12 months, excluding designated cash and investments. Temporary investments are recorded at fair value.

Accounts Receivable-Residents

Accounts receivable are stated at net realizable value. Accordingly, the Organization provides an allowance for uncollectible accounts using management's judgment. Residents are not required to provide collateral for services rendered. Payment for services rendered is due within 10 days of receipt of the invoice or claim submitted. Accounts outstanding more than 90 days are reviewed for collectability by management, and are written off only after all efforts to collect have been made. In addition, an allowance is estimated for other accounts based on the historical experience of the Organization. At September 30, 2015, the allowance for uncollectible accounts was \$10,000.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets restricted under bond agreements, funds designated by donor, and funds maintained on behalf of residents. Noncurrent cash and investments that are required for obligations classified as current liabilities are reported as current assets.

Capital Assets

Capital assets are reported at cost, if purchased, or at fair market value on the date received, if donated. Major additions and betterments are charged to the capital asset accounts while maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. Depreciation is provided on a straight-line basis over the estimated useful lives of the property, which range from 5 to 40 years.

Tenant Security Deposits

The Apartments hold in trust security deposits advanced by their tenants. The Organization records these deposits plus an amount sufficient to fund a minimum of 1% simple interest as a liability, accrued from the date of the deposit.

Net Position

Net position of the Organization is classified in two components as follows:

Net Investment in Capital Assets – consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Unrestricted Net Position – the remaining net position that does not meet the definition of *Net Investment in Capital Assets* or *Restricted*.

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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Net Resident Services Revenue

Net resident service revenues include room charges and ancillary services to residents and are recorded at established billing rates, net of contractual adjustments, resulting from agreements with third-party payers.

Provisions for estimated third-party payer settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and subsequent settlements are recorded in revenues in the year of settlement.

Third-Party Reimbursement Agreements

**Medicaid**

The Organization participates in the Medicaid program which is administered by the Minnesota Department of Human Services (DHS). Medicaid and private paying residents are classified into one of 48 Resource Utilization Groups (RUG) for purposes of establishing payment rates.

Medicaid payment rates primarily consist of operating rates, a property related rate, and certain pass-through costs. Annual operating rate increases are applied if funding is appropriated by the Minnesota Legislature.

By Minnesota Statutes, a nursing facility may not charge private paying residents in multiple occupancy rooms per diem rates in excess of the approved Medicaid rates for similar services.

**Medicare**

The Organization participates in the Medicare program. This federal program is administered by the Centers for Medicare and Medicaid Services (CMS). The Organization is paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing facility services (SNFs). The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement.

Nursing facilities licensed for participation in the Medicare and Medicaid programs are subject to annual surveys. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance, which would have a negative impact on the revenues of the nursing facility.

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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Contributions

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time period ends or purpose is accomplished, restricted funds are reclassified. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Deposits

In accordance with Minnesota Statutes, the Organization, maintains deposits at the depository bank which is authorized by the City Council and is a member of the Federal Reserve System.

Minnesota Statutes require that all of the Organization's deposits be protected by insurance, surety bond, or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes legal investments as well as certain first year mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

The Organizations deposits at September 30, 2015 were entirely covered by federal depository insurance or collateral held by the Organization's custodial bank in the Organization's name.

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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Capital Assets

Capital asset activity for the year ended September 31, 2015, was as follows:

	Balance September 30, 2014	Additions and Transfers	Retirements/ Transfers	Balance September 30, 2015
<b>GREENWOOD CONNECTIONS</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 87,340	\$ -	\$ -	\$ 87,340
Capital Assets, Being Depreciated				
Land Improvements	56,748	-	-	56,748
Building and Improvements	5,708,240	14,964	-	5,723,204
Equipment	1,114,197	22,130	3,396	1,132,931
Total Capital Assets, Being Depreciated	6,879,185	37,094	3,396	6,912,883
Less Accumulated Depreciation	(3,589,552)	(177,404)	(1,656)	(3,765,300)
Total Capital Assets, Depreciated, Net	3,289,633	(140,310)	1,740	3,147,583
Business-Type Activities Capital Assets, Net	<u>\$ 3,376,973</u>	<u>\$ (140,310)</u>	<u>\$ 1,740</u>	<u>\$ 3,234,923</u>

Long-Term Debt

The long-term debt obligations outstanding at year-end September 30, 2015 are summarized as follows:

	Range of Interest Rates	Original Issue	September 30, 2015
G.O. Bonds, Series 2012	2.00%	\$ 815,000	<u>\$ 665,000</u>

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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Long-Term Debt (Continued)

Annual debt service requirements to maturity, including interest payments, are as follows:

	Greenwood Connections		
	Long-Term Debt		
	Principal	Interest	Total
2016	\$ 50,000	\$ 16,000	\$ 66,000
2017	50,000	15,000	65,000
2018	50,000	14,000	64,000
2019	50,000	13,000	63,000
2020	55,000	12,000	67,000
2021-2024	225,000	33,000	258,000
2025-2027	185,000	8,000	193,000
Total	\$ 665,000	\$ 111,000	\$ 776,000

Pensions

**Plan Description**

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

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

**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.

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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Pensions (Continued)

**Benefits Provided (Continued)**

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 accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**Contributions**

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the Organization was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The Organization's contributions to the GERS for the plan's fiscal year ended September 30, 2015 was \$180,953. The Organization's contributions were equal to the required contributions for each year as set by state statute.

**Pension Costs**

At September 30, 2015, the Organization reported a liability of \$2,161,110 for its proportionate share of the GERS's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability was based on the Organization's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 to June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At September 30, 2015, the Organization's proportion was .0417%, which was a decrease of .0021% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2015, the Organization recognized pension expense of \$263,409, for its proportionate share of GERS's pension expense.

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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Pensions (Continued)

**Pension Costs (Continued)**

At September 30, 2015 the Organization reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 21,050	\$ 108,957
Changes of Assumptions	141,365	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	212,369
Changes in Proportion and Differences Between Organizations Contributions and Proportionate Share of Contributions	-	73,986
Organization Contributions Made Subsequent to the Measurement Date	45,238	-
Total	<u>\$ 207,653</u>	<u>\$ 395,312</u>

\$45,238 reported as deferred outflows of resources related to pensions resulting from Organization contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended September 30,	Pension Expense Amount
2016	\$ (67,611)
2017	(67,611)
2018	(148,819)
2019	51,144
2020	-
Total	<u>\$ (232,897)</u>

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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Pensions (Continued)

**Actuarial Assumptions**

The total pension liability in the September 30, 2015 and 2014, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

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

The long-term expected rate of return on pension plan investments is 7.90%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45 %	5.5 %
International Stocks	15	6.0
Bonds	18	1.5
Alternative Assets	20	6.4
Cash	2	0.5
Totals	100 %	



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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Pensions (Continued)

**Discount Rate**

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

**Pension Liability Sensitivity**

The following presents the Organization'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 Organization's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

Description	1% Decrease (6.9%)	Current Discount Rate (7.9%)	1% Increase (8.9%)
Organization Proportionate Share of the GERF Net Pension Liability at September 30, 2015:	\$ 3,398,034	\$ 2,161,110	\$ 1,139,602

**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); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Litigations, Claims, and Disputes

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for resident services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for resident services previously billed.

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

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)**

**Greenwood Connections (Continued)**

Prior Period Adjustment

During the year ended September 30, 2015, Governmental Accounting Standards Board Statement, No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*, was implemented by the Facility. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability, which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Previously Reported	Prior Period Restatement	As Restated
Net Position October 1, 2013	\$ 3,075,474	\$(2,330,367)	\$ 745,107

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

**NOTE 7 RESTATEMENT FOR CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended December 31, 2015, the City adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statements No. 68*. These pronouncements require the restatement of the December 31, 2014, net position as follows:

	Governmental	Business-Type Activities		
	Activities	Water Fund	Sewer Fund	Liquor Store Fund
Net Position, December 31, 2014, as Previously Reported	\$ 1,713,604	\$ 2,521,617	\$ 2,471,456	\$ 407,796
Cumulative Affect of Application of GASB 68, Net Pension Liability	(300,772)	(11,650)	(11,650)	(49,512)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for City Contributions Made to the Plan During Measurement Period (7/1/14 - 12/31/14)	23,460	495	495	2,104
Total Cumulative Affect of Restatement for Change in Accounting Principle	<u>(277,312)</u>	<u>(11,155)</u>	<u>(11,155)</u>	<u>(47,408)</u>
Net Position, December 31, 2014, as Restated	<u>\$ 1,436,292</u>	<u>\$ 2,510,462</u>	<u>\$ 2,460,301</u>	<u>\$ 360,388</u>

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

As of December 31, 2015, the City has approximately \$504,000 of outstanding construction commitments related to construction services for the water treatment system upgrade.

This Page Has Been Intentionally Left Blank.

**REQUIRED SUPPLEMENTARY INFORMATION OTHER  
THAN MD&A**



**CITY OF MENAHGA, MINNESOTA  
 MENAHGA FIRE RELIEF ASSOCIATION  
 SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND RELATED RATIOS**

<b><u>Total Pension Liability</u></b>	
Service Cost	\$ 13,237
Interest	<u>8,767</u>
<b>Net Change in Total Pension Liability</b>	<b>22,004</b>
Total Pension Liability - Beginning	<u>195,162</u>
Total Pension Liability - Ending (a)	<u>217,166</u>
<b><u>Plan Fiduciary Net Position</u></b>	
Municipal Contributions	2,000
State Contributions	12,857
Net Investment Income	13,188
Other Changes	<u>3,467</u>
<b>Net Change in Fiduciary Net Position</b>	<b>31,512</b>
<b>Fiduciary Net Position - Beginning</b>	<u>285,630</u>
<b>Fiduciary Net Position - Ending (b)</b>	<u>317,142</u>
<b>Association's Net Pension Liability/(Asset) - Ending (a) - (b)</b>	<u><u>\$ (99,976)</u></u>
<b>Fiduciary Net Position as a percentage of the Total Pension Liability</b>	146.04%
<b>Covered-Employee Payroll</b>	N/A
<b>Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	N/A

**CITY OF MENAUGA, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2015**

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>REVENUES</b>				
Taxes	\$ 329,075	\$ 329,075	\$ 307,333	\$ (21,742)
Licenses and Permits	1,250	1,250	1,215	(35)
Intergovernmental	386,891	386,891	449,664	62,773
Charges for Services	69,050	69,050	79,426	10,376
Fines and Forfeits	14,100	14,100	13,102	(998)
Fines and Forfeits	-	-	174	174
Interest	6,815	6,815	2,340	(4,475)
Miscellaneous	303,698	303,698	302,318	(1,380)
Total Revenues	<u>1,110,879</u>	<u>1,110,879</u>	<u>1,155,572</u>	<u>44,693</u>
<b>EXPENDITURES</b>				
Current				
General Government				
Mayor and Council	14,930	14,930	13,327	(1,603)
Administration	154,105	154,105	157,630	3,525
Contractual Services	21,600	21,600	22,212	612
Governmental Buildings	21,500	21,500	26,121	4,621
Total General Government	<u>212,135</u>	<u>212,135</u>	<u>219,290</u>	<u>7,155</u>
Public Safety				
Police Protection	261,480	261,480	256,141	(5,339)
Fire Protection	39,400	39,400	56,895	17,495
Other Protection	296,698	296,698	271,974	(24,724)
Total Public Safety	<u>597,578</u>	<u>597,578</u>	<u>585,010</u>	<u>(12,568)</u>
Public Works				
Street Maintenance	123,295	123,295	104,657	(18,638)
Culture and Recreation				
Beach	4,500	19,500	11,201	(8,299)
Parks	23,370	23,370	28,064	4,694
Total Culture and Recreation	<u>27,870</u>	<u>42,870</u>	<u>39,265</u>	<u>(3,605)</u>
Miscellaneous				
Unallocated Insurance	54,000	54,000	44,927	(9,073)
Taxes and Assessments	13,973	13,973	25,471	11,498
Total Miscellaneous	<u>67,973</u>	<u>67,973</u>	<u>70,398</u>	<u>2,425</u>
Debt Service				
Principal	5,800	5,800	-	(5,800)

See accompanying Note to Required Supplementary Information.



**CITY OF MENAUGA, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2015**

	<u>BUDGET ORIGINAL</u>	<u>BUDGET FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET OVER (UNDER)</u>
<b>EXPENDITURES (Continued)</b>				
Capital Outlay				
Capital Equipment	\$ 35,300	\$ 35,300	\$ 24,473	\$ (10,827)
Total Expenditures	<u>1,069,951</u>	<u>1,084,951</u>	<u>1,043,093</u>	<u>(41,858)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	40,928	25,928	112,479	86,551
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Assets	-	-	5,306	5,306
Transfers In	60,000	60,000	60,000	-
Transfers Out	<u>(65,200)</u>	<u>(65,200)</u>	<u>(97,015)</u>	<u>(31,815)</u>
Total Other Financing Sources (Uses)	<u>(5,200)</u>	<u>(5,200)</u>	<u>(31,709)</u>	<u>(26,509)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 35,728</u>	<u>\$ 20,728</u>	80,770	<u>\$ 60,042</u>
Fund Balance - Beginning of Year			<u>481,811</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 562,581</u>	

**NOTE TO SCHEDULE**

The budget is prepared using the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**CITY OF MENAHGA, MINNESOTA**  
**SCHEDULE OF CITY PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**LAST TEN FISCAL YEARS\***

		Measurement Date <u>June 30, 2015</u>
<b>GERF</b>		
City's Proportion of the Net Pension Liability		0.0053%
City's Proportionate Share of the Net Pension Liability	\$	274,674
City's Covered-Employee Payroll	\$	326,360
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll		84.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		78.20%
 <b>PEPFF</b>		
City's Proportion of the Net Pension Liability		0.0160%
City's Proportionate Share of the Net Pension Liability	\$	181,797
City's Covered-Employee Payroll	\$	150,451
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll		120.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		78.20%

\* Information for additional years will be added as it becomes available.

**CITY OF MENAHGA, MINNESOTA  
SCHEDULE OF CITY CONTRIBUTIONS  
LAST TEN FISCAL YEARS\***

	<u>2015</u>	<u>2014</u>
<b>GERF</b>		
Contractually Required Contribution	\$ 24,477	\$ 23,668
Contributions in Relation to the Contractually Required	<u>(24,477)</u>	<u>(23,668)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 326,360	\$ 326,455
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.25%
<b>PEPFF</b>		
Contractually Required Contribution	\$ 24,373	\$ 22,253
Contributions in Relation to the Contractually Required	<u>(24,373)</u>	<u>(22,253)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 150,451	\$ 145,444
Contributions as a Percentage of Covered Employee Payroll	16.20%	15.30%
<b>FIRE RELIEF ASSOCIATION PLAN</b>		
Statutorily Required Contribution	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	<u>2,000</u>	<u>2,000</u>
Contribution Deficiency (Excess)	<u>\$ 2,000</u>	<u>\$ 2,000</u>
City's Covered-Employee Payroll	N/A	N/A
Contributions as a Percentage of Covered Employee Payroll	N/A	N/A

\* Information for additional years will be added as it becomes available.

This Page Has Been Intentionally Left Blank.

## **SUPPLEMENTARY INFORMATION**



**COMBINING FUND  
FINANCIAL STATEMENTS**

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

	SPECIAL REVENUE FUNDS		
<b>ASSETS</b>	ECONOMIC DEVELOPMENT REVOLVING LOANS	SAFE ROUTES TO SCHOOL	TAX INCREMENT FINANCE DISTRICT 1-1
Cash and Cash Equivalents	\$ 168,150	\$ -	\$ 18,024
Receivables			
Loans	31,104		-
Total Assets	\$ 199,254	\$ -	\$ 18,024
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	3,292	-
Total Liabilities	-	3,292	-
Deferred Inflows of Resources			
Unavailable for Loans	31,104	-	-
Fund Balance			
Restricted for Economic Development	168,150	-	18,024
Unassigned	-	(3,292)	-
Total Fund Balance (Deficit)	168,150	(3,292)	18,024
Total Liabilities and Fund Balance	\$ 199,254	\$ -	\$ 18,024



SPECIAL REVENUE FUNDS

TAX INCREMENT FINANCE DISTRICT 1-5	TAX INCREMENT FINANCE DISTRICT 1-4	TAX INCREMENT FINANCE DISTRICT 1-6	TOTAL
\$ 975	\$ -	\$ -	\$ 187,149
<u>-</u>	<u>-</u>	<u>-</u>	<u>31,104</u>
<u>\$ 975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,253</u>
\$ -	\$ -	\$ 4,880	\$ 4,880
<u>-</u>	<u>50</u>	<u>659</u>	<u>4,001</u>
-	50	5,539	8,881
-	-	-	31,104
975	-	-	187,149
<u>-</u>	<u>(50)</u>	<u>(5,539)</u>	<u>(8,881)</u>
<u>975</u>	<u>(50)</u>	<u>(5,539)</u>	<u>178,268</u>
<u>\$ 975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,253</u>

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

	SPECIAL REVENUE FUNDS		
	ECONOMIC DEVELOPMENT REVOLVING LOANS	SAFE ROUTES TO SCHOOL	TAX INCREMENT FINANCE DISTRICT 1-1
<b>REVENUES</b>			
Tax Increments	\$ -	\$ -	\$ 2,989
Interest	1,092	-	37
Miscellaneous	17,982	-	-
Total Revenues	<u>19,074</u>	<u>-</u>	<u>3,026</u>
<b>EXPENDITURES</b>			
Current			
Economic Development	40,977	-	1,381
Miscellaneous	123	-	-
Capital Outlay	3,240	-	-
Total Expenditures	<u>44,340</u>	<u>-</u>	<u>1,381</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(25,266)	-	1,645
Fund Balances - Beginning of Year	<u>193,416</u>	<u>(3,292)</u>	<u>16,379</u>
<b>FUND BALANCES (DEFICIT) - END OF YEAR</b>	<u>\$ 168,150</u>	<u>\$ (3,292)</u>	<u>\$ 18,024</u>

SPECIAL REVENUE FUNDS

TAX INCREMENT FINANCE DISTRICT 1-5	TAX INCREMENT FINANCE DISTRICT 1-4	TAX INCREMENT FINANCE DISTRICT 1-6	TOTAL
\$ -	\$ -	\$ 10,889	\$ 13,878
4	-	-	1,133
-	-	-	17,982
<u>4</u>	<u>-</u>	<u>10,889</u>	<u>32,993</u>
1,348	-	4,880	48,586
33	-	5,213	5,369
-	-	-	3,240
<u>1,381</u>	<u>-</u>	<u>10,093</u>	<u>57,195</u>
(1,377)	-	796	(24,202)
<u>2,352</u>	<u>(50)</u>	<u>(6,335)</u>	<u>202,470</u>
<u>\$ 975</u>	<u>\$ (50)</u>	<u>\$ (5,539)</u>	<u>\$ 178,268</u>

**CITY OF MENAHGA, MINNESOTA  
BALANCE SHEET  
DEBT SERVICE FUND BY BOND ISSUE  
DECEMBER 31, 2015**

	DEBT SERVICE FUND				
	1996 WATER/SEWER DEBT SERVICE	1998 NURSING HOME DEBT SERVICE	2006 G.O. BONDS DEBT SERVICE	2009 G.O. BONDS DEBT SERVICE	2003 G.O. BONDS DEBT SERVICE
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 86,597	\$ 24,452	\$ (96,036)	\$ (113)	\$ 1
Receivables					
Taxes	-	-	-	1,103	-
Special Assessments	178,729	-	164,678	300,178	10,932
Notes Receivable from Component Unit	-	615,000	-	-	-
Total Assets	<u>\$ 265,326</u>	<u>\$ 639,452</u>	<u>\$ 68,642</u>	<u>\$ 301,168</u>	<u>\$ 10,933</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>					
Deferred Inflows of Resources					
Unavailable for Property Taxes	\$ -	\$ -	\$ -	\$ 1,103	\$ -
Unavailable for Notes Receivable	-	615,000	-	-	-
Unavailable for Special Assessments	176,123	-	163,978	296,741	10,932
Total Deferred Inflows of Resources	<u>176,123</u>	<u>615,000</u>	<u>163,978</u>	<u>297,844</u>	<u>10,932</u>
Fund Balance (Deficit)					
Restricted for Debt Repayment	89,203	24,452	-	-	-
Unassigned	-	-	(95,336)	3,324	1
Total Fund Balance (Deficit)	<u>89,203</u>	<u>24,452</u>	<u>(95,336)</u>	<u>3,324</u>	<u>1</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 265,326</u>	<u>\$ 639,452</u>	<u>\$ 68,642</u>	<u>\$ 301,168</u>	<u>\$ 10,933</u>

DEBT SERVICE FUND

2004 G.O. BONDS DEBT SERVICE	1990 G.O. CITY HALL BONDS	2012A FIRE TRUCK	2013 STREET & UTILITY DEBT SERVICE	2015 IMPROVEMENT REFUNDING GO BONDS	TOTAL DEBT SERVICE FUND
\$ 27	\$ -	\$ -	\$ 344,057	\$ 4,169	\$ 363,154
580	900	-	2,707	-	5,290
23,847	-	-	766,732	-	1,445,096
-	-	-	-	-	615,000
<u>\$ 24,454</u>	<u>\$ 900</u>	<u>\$ -</u>	<u>\$ 1,113,496</u>	<u>\$ 4,169</u>	<u>\$ 2,428,540</u>
\$ 499	\$ 535	\$ -	\$ 2,707	\$ -	\$ 4,844
-	-	-	-	-	615,000
23,632	-	-	766,434	-	1,437,840
<u>24,131</u>	<u>535</u>	<u>-</u>	<u>769,141</u>	<u>-</u>	<u>2,057,684</u>
-	-	-	344,355	4,169	462,179
323	365	-	-	-	(91,323)
<u>323</u>	<u>365</u>	<u>-</u>	<u>344,355</u>	<u>4,169</u>	<u>370,856</u>
<u>\$ 24,454</u>	<u>\$ 900</u>	<u>\$ -</u>	<u>\$ 1,113,496</u>	<u>\$ 4,169</u>	<u>\$ 2,428,540</u>

**CITY OF MENAHGA, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
DEBT SERVICE BY BOND ISSUE  
YEAR ENDED DECEMBER 31, 2015**

	DEBT SERVICE FUND				
	1996	1998	2006	2009	2003
	WATER/SEWER DEBT SERVICE	NURSING HOME DEBT SERVICE	G.O. BONDS DEBT SERVICE	G.O. BONDS DEBT SERVICE	G.O. BONDS DEBT SERVICE
<b>REVENUES</b>					
Taxes	\$ -	\$ -	\$ -	\$ 31,373	\$ -
Special Assessments	61,052	-	21,710	60,062	5,247
Interest	251	54	-	-	-
Collections on Notes Receivable	-	635,281	-	-	-
Total Revenues	<u>61,303</u>	<u>635,335</u>	<u>21,710</u>	<u>91,435</u>	<u>5,247</u>
<b>EXPENDITURES</b>					
Debt Service					
Principal	-	600,000	40,000	60,000	-
Interest	-	33,964	4,455	80,369	-
Fiscal Agent Fees	-	1,317	-	41,050	-
Total Expenditures	<u>-</u>	<u>635,281</u>	<u>44,455</u>	<u>181,419</u>	<u>-</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	61,303	54	(22,745)	(89,984)	5,247
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond Proceeds	-	-	-	825,831	-
Payment on Refunded Bonds	-	-	-	(730,000)	-
Transfers In	-	-	-	-	16,510
Transfers Out	(58,223)	-	-	-	-
Total Other Financing Sources (Uses)	<u>(58,223)</u>	<u>-</u>	<u>-</u>	<u>95,831</u>	<u>16,510</u>
<b>NET CHANGE IN FUND BALANCE</b>	3,080	54	(22,745)	5,847	21,757
Fund Balance (Deficit) - Beginning of Year	<u>86,123</u>	<u>24,398</u>	<u>(72,591)</u>	<u>(2,523)</u>	<u>(21,756)</u>
<b>FUND BALANCE (DEFICIT) - END OF YEAR</b>	<u>\$ 89,203</u>	<u>\$ 24,452</u>	<u>\$ (95,336)</u>	<u>\$ 3,324</u>	<u>\$ 1</u>

DEBT SERVICE FUND

2004 G.O. BONDS DEBT SERVICE	1990 G.O. CITY HALL BONDS	2012A FIRE TRUCK	2013 STREET & UTILITY DEBT SERVICE	2015 IMPROVEMENT REFUNDING GO BONDS	INTERNAL ELIMINATIONS	TOTAL DEBT SERVICE FUND
\$ 694	\$ 441	\$ -	\$ 77,133	\$ -	\$ -	\$ 109,641
9,116	-	-	114,192	-	-	271,379
27	-	-	544	-	-	876
-	-	-	-	-	-	635,281
<u>9,837</u>	<u>441</u>	<u>-</u>	<u>191,869</u>	<u>-</u>	<u>-</u>	<u>1,017,177</u>
-	15,000	20,000	120,000	-	-	855,000
-	413	3,025	75,638	-	-	197,864
-	-	83	1,000	-	-	43,450
<u>-</u>	<u>15,413</u>	<u>23,108</u>	<u>196,638</u>	<u>-</u>	<u>-</u>	<u>1,096,314</u>
9,837	(14,972)	(23,108)	(4,769)	-	-	(79,137)
-	-	-	-	4,169	-	830,000
-	-	-	-	-	-	(730,000)
19,050	22,663	23,108	-	-	(58,223)	23,108
-	-	-	-	-	58,223	-
<u>19,050</u>	<u>22,663</u>	<u>23,108</u>	<u>-</u>	<u>4,169</u>	<u>-</u>	<u>123,108</u>
28,887	7,691	-	(4,769)	4,169	-	43,971
<u>(28,564)</u>	<u>(7,326)</u>	<u>-</u>	<u>349,124</u>	<u>-</u>	<u>-</u>	<u>326,885</u>
<u>\$ 323</u>	<u>\$ 365</u>	<u>\$ -</u>	<u>\$ 344,355</u>	<u>\$ 4,169</u>	<u>\$ -</u>	<u>\$ 370,856</u>

**CITY OF MENAHGA, MINNESOTA  
BALANCE SHEET  
CAPITAL PROJECTS FUND BY CAPITAL PROJECT  
DECEMBER 31, 2015**

	CAPITAL PROJECTS FUND				TOTAL CAPITAL PROJECTS FUND
	CAPITAL EQUIPMENT	2009 IMPROVEMENTS PROJECT	DNR CITY PARK PROJECT	2013 STREET AND UTILITY IMPROVEMENT	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 279,472	\$ (23,025)	\$ -	\$ 8,638	\$ 265,085
Advance to Other Funds	88,744	-	-	-	88,744
Total Assets	<u>\$ 368,216</u>	<u>\$ (23,025)</u>	<u>\$ -</u>	<u>\$ 8,638</u>	<u>\$ 353,829</u>
<b>FUND BALANCE</b>					
Fund Balance					
Restricted for Capital Outlay	\$ -	\$ -	\$ -	\$ 8,638	\$ 8,638
Assigned for Capital Outlay	368,216	-	-	-	368,216
Unassigned	-	(23,025)	-	-	(23,025)
Total Fund Balance (Deficit)	<u>\$ 368,216</u>	<u>\$ (23,025)</u>	<u>\$ -</u>	<u>\$ 8,638</u>	<u>\$ 353,829</u>



**CITY OF MENAHGA, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
CAPITAL PROJECTS FUND BY CAPITAL PROJECT  
YEAR ENDED DECEMBER 31, 2015**

	CAPITAL PROJECTS FUND				TOTAL CAPITAL PROJECTS FUND
	CAPITAL EQUIPMENT	2009 IMPROVEMENTS PROJECT	DNR CITY PARK PROJECT	2013 STREET AND UTILITY IMPROVEMENT	
<b>REVENUES</b>					
Intergovernmental	\$ -	\$ -	\$ 5,519	\$ -	\$ 5,519
Interest	2,810	-	-	22	2,832
Total Revenues	<u>2,810</u>	<u>-</u>	<u>5,519</u>	<u>22</u>	<u>8,351</u>
<b>EXPENDITURES</b>					
Current					
Miscellaneous	-	-	236	-	236
Capital Outlay	21,443	-	14,117	3,115	38,675
Total Expenditures	<u>21,443</u>	<u>-</u>	<u>14,353</u>	<u>3,115</u>	<u>38,911</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(18,633)	-	(8,834)	(3,093)	(30,560)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	65,200	-	8,707	-	73,907
<b>NET CHANGE IN FUND BALANCE</b>	46,567	-	(127)	(3,093)	43,347
Fund Balance (Deficit) - Beginning of Year	321,649	(23,025)	127	11,731	310,482
<b>FUND BALANCE (DEFICIT) - END OF YEAR</b>	<u>\$ 368,216</u>	<u>\$ (23,025)</u>	<u>\$ -</u>	<u>\$ 8,638</u>	<u>\$ 353,829</u>

This Page Has Been Intentionally Left Blank.

## **OTHER REPORTS SECTION**

**INDEPENDENT AUDITORS' 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**

Honorable Mayor and  
Members of the City Council  
City of Menahga  
Menahga, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of American 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Menahga (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 24, 2016.

The City's basic financial statements include the operations of Greenwood Connections. This report does not include reporting on internal control over financial reporting or instances of noncompliance associated with Greenwood Connections because the component unit engaged for its own separate audit that included the provisions of the *Government Auditing Standards* issued by the Comptroller General of the United States.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Honorable Mayor and  
Members of the City Council  
City of Menahga

**Internal Control Over Financial Reporting (Continued)**

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. We consider the deficiencies identified as items 2015-001 through 2015-003 in the accompanying Schedule of Findings and Recommendations to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City’s financial statements are free of 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*.

**City’s Responses to Findings**

The City’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The City’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 24, 2016

This Page Has Been Intentionally Left Blank.

**CITY OF MENAUGA, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2015**

**MATERIAL WEAKNESSES**

2015-001

**LACK OF SEGREGATION OF DUTIES**

**Criteria:** Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

**Condition and Context:** There is a limited amount of office employees involved in the internal control process. More specifically, the same employee who handles cash/check receipts from utility billings also posts to accounting system, creates deposit slip, and brings to bank. The same employee who enters the receipts other than utility billings also performs the bank reconciliation. Inventory counts are performed by the same individual who orders and receives inventory.

**Cause:** Size and budget constraints limit the number of personnel within the City.

**Effect:** The design of the internal control over financial reporting could adversely affect the City's ability to initiate, authorize, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This could include the lack of the ability to prevent or detect errors, fraud or misappropriation of assets in a timely manner.

**Recommendation:** The responsibilities listed above should be reviewed periodically and consideration given to improving the segregation of duties. We acknowledge the fact that the City's opportunity for improving segregation of duties is somewhat limited by cost-benefit consideration. We recommend that the City Administrator review the bank reconciliations on a monthly basis.

**Management Response:** *The City will continue to explore the possible further segregation of duties within the City office until it becomes cost prohibitive.*

**CITY OF MENAHGA, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2015**

**MATERIAL WEAKNESSES (CONTINUED)**

2015-002

AUDIT ADJUSTMENTS

**Criteria:** City management is responsible for establishing and maintaining internal controls for the proper recording of all the City's accounting transactions, including reporting of accruals and other reclassification amounts.

**Condition and Context:** As part of the audit, we proposed material adjustments for the reporting of accruals and note disclosure preparation.

**Cause:** The City has a limited number of personnel with financial reporting experience.

**Effect:** The design of the internal controls over recording transactions and year-end accruals limits the ability of the City to provide accurate accrual basis financial information.

**Recommendation:** We recommend City management and financial personnel continue to increase their awareness and knowledge of all procedure and processes involved in recording transactions and reclassifications and develop internal control policies to ensure proper recording of these items.

**Management Response:** *The City will continue to utilize the expertise of the audit firm to propose audit adjustments necessary to adjust accounts in accordance with generally accepted accounting principles. Management will review and assess the materiality of those entries prior to recording them.*



**CITY OF MENAUGA, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2015**

**MATERIAL WEAKNESSES (CONTINUED)**

2015-003

FINANCIAL STATEMENT PREPARATION

**Criteria:** Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

**Condition and Context:** The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures, are complete, and presented in accordance with GAAP. In addition Management has informed us that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

**Cause:** The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

**Effect:** The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

**Recommendation:** Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

**Management Response:** *The City will continue to utilize the expertise of the audit firm to prepare the financial statements and related footnote disclosures and will review and approve these prior to the issuance of the annual financial statements.*

**MINNESOTA LEGAL COMPLIANCE**

**NONE NOTED**

This Page Has Been Intentionally Left Blank.

## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and  
Members of the City Council  
City of Menahga  
Menahga, 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 accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Menahga (the City), Minnesota, of December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated May 24, 2016.

The City's basic financial statements include the operations of Greenwood Connections. This report does not include the operations of Greenwood Connections because the component unit engaged for its own separate audit that included the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*.

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.

In connection with our audit, nothing came to our attention that caused us to believe that the City 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.

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



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 24, 2016

This Page Has Been Intentionally Left Blank.