

CITY OF MENAHGA, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2014

**CITY OF MENAHGA, MINNESOTA
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DECEMBER 31, 2014**

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INTRODUCTORY SECTION

**CITY OF MENAHGA, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2014**

ELECTED OFFICIALS

Position	Term Expires	Name
Mayor	12/31/2014	Patrick Foss
Vice Mayor	12/31/2014	Roger Henstorf
Council Member	12/31/2016	Gary Parvi
Council Member	12/31/2016	Kim Rasmussen
Council Member	12/31/2014	Martin Ahlf

APPOINTED OFFICIALS

Position	Name
City Administrator	Charleen West

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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, 2014, 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.

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

Other Matters

Required Supplementary Information

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

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.

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.

Honorable Mayor and
Members of the City Council
City of Menahga

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2015, 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 18, 2015

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REQUIRED SUPPLEMENTARY INFORMATION

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

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, 2014. 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 (2014) and the prior year (2013) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 include the following:

- City-wide net position increased approximately \$200,000 over the prior year. This is due primarily to the City receiving more in local government aid as well as having an increase in taxes.
- As of the close of the current year, the City's governmental funds reported combined fund balance of \$1,321,648, a decrease of \$433,192 in comparison to the prior year. Approximately 42% of this amount, or \$550,763, is restricted for economic development, debt repayment, and capital outlay. Approximately 23% of this amount, or \$298,751, is assigned for capital outlay.
- At the end of the current year, unassigned fund balance for the General Fund was \$398,478, or 46% 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.

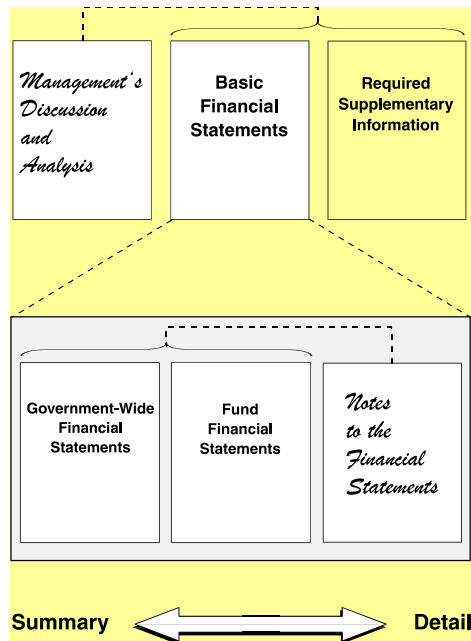
**CITY OF MENAHGA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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, 2014**

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.

Figure A-2. Major Features of the City’s Government-Wide and Fund Financial Statements				
Type of Statements	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
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 and liabilities, 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 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 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, 2014**

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 two 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, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's net position was \$7,114,473 on December 31, 2014 (see Table A-1).

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 4,213,665	\$ 5,062,055	\$ 1,811,688	\$ 1,785,564	\$ 6,025,353	\$6,847,619
Capital Assets	2,191,988	2,170,407	4,272,039	3,870,633	6,464,027	6,041,040
Total Assets	6,405,653	7,232,462	6,083,727	5,656,197	12,489,380	12,888,659
Current Liabilities	466,689	424,843	98,386	106,579	565,075	531,422
Long-Term Liabilities	4,225,360	4,786,251	584,472	658,264	4,809,832	5,444,515
Total Liabilities	4,692,049	5,211,094	682,858	764,843	5,374,907	5,975,937
Net Position						
Net Investment in Capital Assets	778,852	630,472	3,621,477	3,150,650	2,556,355	3,103,981
Restricted	2,276,525	2,222,159	-	-	2,276,525	2,222,159
Unrestricted	(1,341,773)	(831,263)	1,779,392	1,740,704	2,281,593	1,586,582
Total Net Position	\$ 1,713,604	\$ 2,021,368	\$ 5,400,869	\$ 4,891,354	\$ 7,114,473	\$6,912,722

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$2,618,512 for the year ended December 31, 2014. Property taxes and intergovernmental revenues accounted for 39% of total revenue for the year, while user charges accounted for 57% of total revenue (see Table A-2).

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues						
Charges for Services	\$ 292,982	\$ 166,193	\$ 1,205,154	\$ 1,169,077	\$ 1,498,136	\$ 1,335,270
Operating Grants and Contributions	64,640	37,337	-	-	64,640	37,337
Capital Grants and Contributions	140,081	951,205	-	-	140,081	951,205
General Revenues						
Property Taxes	426,222	362,125	-	270	426,222	362,395
Franchise Fees	500	500	-	-	500	500
Unrestricted State Aid	382,029	343,377	-	-	382,029	343,377
Unrestricted Investment Earnings	9,900	9,783	5,436	2,873	15,336	12,656
Gain on Sale of Capital Assets	18,115	-	-	-	18,115	-
Miscellaneous	63,163	206,863	10,290	4,458	73,453	211,321
Total Revenues	1,397,632	2,077,383	1,220,880	1,176,678	2,618,512	3,254,061
EXPENSES						
General Government	299,148	305,409	-	-	299,148	305,409
Public Safety	536,792	470,648	-	-	536,792	470,648
Public Works	157,987	140,254	-	-	157,987	140,254
Culture and Recreation	38,031	46,407	-	-	38,031	46,407
Economic Development	19,172	9,707	-	-	19,172	9,707
Interest on Long-Term Debt	147,535	198,924	-	-	147,535	198,924
Water/Sewer	-	-	489,550	427,593	489,550	427,593
Liquor Store	-	-	728,546	666,212	728,546	666,212
Total Expenses	1,198,665	1,171,349	1,218,096	1,093,805	2,416,761	2,265,154
CHANGE IN NET POSITION BEFORE TRANSFERS	198,967	906,034	2,784	82,873	201,751	988,907
Transfers	(506,731)	(1,537,411)	506,731	1,537,411	-	-
CHANGE IN NET POSITION	(307,764)	(631,377)	509,515	1,620,284	201,751	988,907
Net Position - Beginning of Year	2,021,368	2,652,745	4,891,354	3,271,070	6,912,722	5,923,815
NET POSITION - END OF YEAR	\$ 1,713,604	\$ 2,021,368	\$ 5,400,869	\$ 4,891,354	\$ 7,114,473	\$ 6,912,722

Total revenues surpassed expenses, increasing net position \$201,751 over last year.

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

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 \$1,198,665.

- Some of the cost was paid by the users of the City's programs (\$292,982).
- Federal and state government payments (\$64,640) and capital grants and contributions (\$140,081) subsidized certain programs.
- Ad valorem property taxes (\$426,222) and unrestricted state grants (\$382,029) also helped fund the net costs of governmental services.

Figure A-3 Sources of City's Revenues for Fiscal 2014

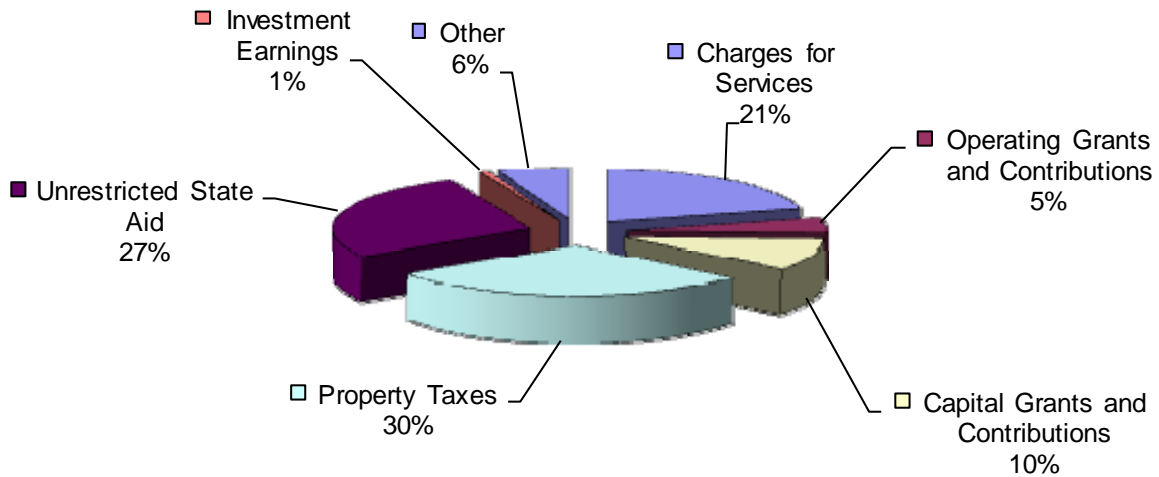
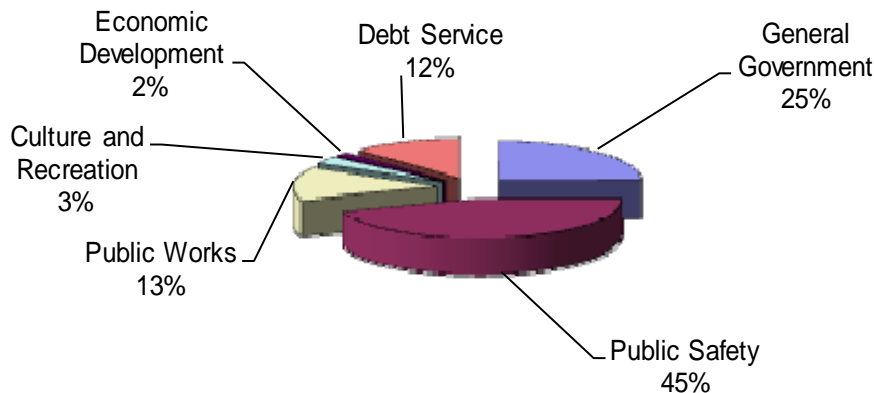


Figure A-4 City's Expenses for Fiscal 2014



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

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	
	2014	2013	2014	2013
GOVERNMENTAL ACTIVITIES				
General Government	\$ 299,148	\$ 305,409	\$ (146,453)	\$ (193,887)
Public Safety	536,792	470,648	(359,319)	(410,135)
Public Works	157,987	140,254	(14,587)	815,213
Culture and Recreation	38,031	46,407	(24,855)	(35,633)
Economic Development	19,172	9,707	(8,213)	6,752
Interest and Fiscal Charges on Debt Service	147,535	198,924	(147,535)	(198,924)
Total	\$ 1,198,665	\$ 1,171,349	\$ (700,962)	\$ (16,614)
BUSINESS-TYPE ACTIVITIES				
Water/Sewer	\$ 489,550	\$ 427,593	\$ (53,571)	\$ 64,082
Liquor Store	728,546	666,212	40,629	43,969
Total	\$ 1,218,096	\$ 1,093,805	\$ (12,942)	\$ 108,051

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 \$1,321,648.

Revenues for the City's governmental funds were \$1,686,438, while total expenditures were \$2,186,245. Other financing sources (uses) totaled \$66,615.

The General Fund's fund balance increased \$19,892 from the prior year. This is due to an increase in local government aid from the state.

The Debt Service Fund's fund balance increased \$92,273, due to taxes and special assessments collected being sufficient to cover current year principal and interest payments.

The Capital Projects Fund's fund balance decreased \$537,688, due to capital projects going on during the current year.

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

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

Business-Type Funds

The Water/Sewer Fund's net position increased by \$518,148, due to the capital contributions from the governmental funds.

The Liquor Store Fund's net position decreased by \$8,633, due to a transfer for current year operations to the General Fund.

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, 2014	December 31, 2013	Increase (Decrease)	Percent
Taxes	\$ 305,215	\$ 315,672	\$ (10,457)	(3.3)%
Licenses and Permits	1,126	1,190	(64)	(5.4)
Intergovernmental	419,265	368,681	50,584	13.7
Charges for Services	74,232	71,508	2,724	3.8
Fines and Forfeits	10,880	12,645	(1,765)	(14.0)
Interest	2,919	7,008	(4,089)	(58.3)
Miscellaneous and Other	118,338	20,927	97,411	465.5
Total General Fund Revenues	<u>\$ 931,975</u>	<u>\$ 797,631</u>	<u>\$ 134,344</u>	16.8

Total General Fund revenue increased by \$134,344 or 16.8%, from the previous year. The primary reason for the increase is an increase in taxes and an increase in local government aid for the current year.

The following schedule presents a summary of General Fund Expenditures:

**Table A-5
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2014	December 31, 2013	Increase (Decrease)	Percent
General Government	\$ 202,947	\$ 195,665	\$ 7,282	3.7 %
Public Safety	394,155	311,550	82,605	26.5
Highway and Streets	102,681	117,895	(15,214)	(12.9)
Culture and Recreation	28,505	47,893	(19,388)	(40.5)
Miscellaneous	52,749	49,476	3,273	6.6
Capital Outlay	88,845	82,012	6,833	8.3
Total Expenditures	<u>\$ 869,882</u>	<u>\$ 804,491</u>	<u>\$ 65,391</u>	8.1

The General Fund's expenditures increased by \$65,391, or 8.1% from 2013. This increase is due to an increase in public safety expenditures for other protection during the current year.

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

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

General Fund (Continued)

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. This is primarily due to an increase in fire aid and taxes.
- The actual expenditures were \$90,796 more than budget. This is primarily due to the other protection in public safety that was not budgeted for in the current year.

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 going on in the current year nor did they issue any new debt.

CAPITAL ASSETS

By the end of 2014, the City had invested approximately \$6,464,000 (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 \$359,385 (including the enterprise funds).

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 51,786	\$ 51,786	\$ 81,854	\$ 81,854	\$ 133,640	\$ 133,640
Construction-in-Progress	-	117,100	19,096	1,587,411	19,096	1,704,511
Buildings	500,271	488,900	378,698	378,698	878,969	867,598
Equipment	1,270,242	1,269,186	200,196	209,229	1,470,438	1,478,415
Infrastructure	1,731,859	1,572,952	-	-	1,731,859	1,572,952
Land Improvements	-	-	12,846	12,846	12,846	12,846
Distribution and Collection System	-	-	7,862,397	5,708,255	7,862,397	5,708,255
Less: Accumulated Depreciation	(1,362,170)	(1,329,517)	(4,283,048)	(4,107,660)	(5,645,218)	(5,437,177)
Total	\$ 2,191,988	\$ 2,170,407	\$ 4,272,039	\$ 3,870,633	\$ 6,464,027	\$ 6,041,040

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

LONG-TERM LIABILITIES

At year-end, the City had \$5,296,992 in long-term liabilities outstanding.

- The City's governmental activities and business-type activities general obligation bonds decreased \$496,084, due regular schedule principal payments.

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

	2014	2013	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds	\$ 4,540,000	\$ 4,951,000	(8.3)%
Compensated Absences Payable	16,500	18,560	(11.1)
Add: Bond Premiums	82,182	87,754	100.0
Less: Bond Discounts	(72)	(783)	(90.8)
	<u> </u>	<u> </u>	
Total Governmental Activities	<u>\$ 4,638,610</u>	<u>\$ 5,056,531</u>	(8.3)
BUSINESS-TYPE ACTIVITIES			
General Obligation Bonds	\$ 655,000	\$ 725,000	(9.7)
Compensated Absences Payable	7,820	16,562	(52.8)
Less: Bond Discounts	(4,438)	(5,017)	(11.5)
	<u> </u>	<u> </u>	
Total Business-Type Activities	<u>\$ 658,382</u>	<u>\$ 736,545</u>	(10.6)
Total City-Wide Debt	<u>\$ 5,296,992</u>	<u>\$ 5,793,076</u>	(8.6)

FACTORS BEARING ON THE CITY'S FUTURE

The City experienced an increase in 2015 market values for the first time in four years. The 2012 legislature changed the homestead credit reimbursement program from receiving a credit, to a portion of a qualifying homeowner's market value being exempt from property taxes. The amount of homestead credit reimbursement has declined since its inception in 2012. The 2013 omnibus tax bill made several changes on how levy, tax, spending, debt and similar limits are calculated, switching from using "market value" or "taxable market value" to "estimate market value", which effectively decreased the tax base for all cities.

In 2014, the City received a \$63,684 increase in State Local Governmental Aid (LGA) and anticipates an increase of \$8,622 in 2015.

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

FACTORS BEARING ON THE CITY'S FUTURE (CONTINUED)

The City was able to maintain a 0% Pay 2015 Levy increase following a Pay 2014 Levy increase of 18% due to added debt. Currently the City is calling for bids for the rehabilitation of its 35 year old Water Treatment Plant. The estimated project cost is \$1,560,000. The City anticipates payment of the project cost to be through a Public Facilities Authority (PFA) Principal Forgiveness Loan, City Water Fund reserves and user fees.

The City's Business Retention & Expansion (BR&E) through the University of MN continues to be successful and participation is strong.

The City was able to remain a 'small employer' in 2015 under the Health Care Reform Act. Despite the 'small employer' classification, the City experienced an 8% rate increase for 2015 following a 20% premium increase in 2014. This increase was despite an annual employee deductible increase from \$2,500 to \$3,000.

Per the MN State Demographer, the City of Menahga's population is steadily increasing; 2010 Census – 1,306, 2011 Estimate – 1,300, 2012 Estimate – 1,304 and 2013 Estimate – 1,330.

Per the MN Department of Employment & Economic Development (DEED), Wadena County's March 2015 unemployment rate was 8.3% in comparison to the State's unemployment rate of 5.5% 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 2nd street NE, PO Box C, Menahga, Minnesota 56464.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF MENAHGA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Greenwood Connections
ASSETS				
Cash and Cash Equivalents	\$ 1,284,507	\$ 1,637,453	\$ 2,921,960	\$ 448,172
Temporary Investments	-	-	-	398,039
Receivables				
Taxes	30,651	-	30,651	-
Accounts	2,115	69,439	71,554	373,351
Special Assessments	1,649,767	15,504	1,665,271	-
Accrued Interest	130	109	239	-
Note Receivable from Component Unit	1,215,000	-	1,215,000	-
Inventory	375	79,817	80,192	-
Prepaid Items	31,120	9,366	40,486	140,195
Noncurrent Cash and Investments	-	-	-	269,110
Capital Assets				
Land and Construction In Progress	51,786	100,950	152,736	87,340
Other Capital Assets, Net of Depreciation	2,140,202	4,171,089	6,311,291	3,289,633
Total Assets	6,405,653	6,083,727	12,489,380	5,005,840
LIABILITIES				
Current Liabilities				
Accounts Payable	6,334	6,687	13,021	115,622
Accrued Liabilities	1,391	1,597	2,988	436,095
Customer Deposits	-	600	600	-
Accrued Interest Payable	45,479	9,271	54,750	13,649
Due to Other Governments	235	6,321	6,556	-
Long-Term Liabilities				
Due within One Year	413,250	73,910	487,160	150,000
Due to the Primary Government	-	-	-	1,215,000
Due in More than One Year, Net of Unamortized Discount	4,225,360	584,472	4,809,832	-
Total Liabilities	4,692,049	682,858	5,374,907	1,930,366
NET POSITION				
Net Investment in Capital Assets	778,852	3,621,477	2,556,355	2,011,973
Restricted For:				
Debt Repayments	2,064,378	-	2,064,378	-
Economic Development	212,147	-	212,147	-
Unrestricted	(1,341,773)	1,779,392	2,281,593	1,063,501
Total Net Position	\$ 1,713,604	\$ 5,400,869	\$ 7,114,473	\$ 3,075,474

See accompanying Notes to the Financial Statements.

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 299,148	\$ 90,655	\$ 62,040	\$ -
Public Safety	536,792	174,873	2,600	-
Public Works	157,987	3,319	-	140,081
Culture and Recreation	38,031	13,176	-	-
Economic Development	19,172	10,959	-	-
Debt Service	147,535	-	-	-
Total Governmental Activities	<u>1,198,665</u>	<u>292,982</u>	<u>64,640</u>	<u>140,081</u>
Business-Type Activities				
Water/Sewer	489,550	435,979	-	-
Liquor	728,546	769,175	-	-
Total Business-Type Activities	<u>1,218,096</u>	<u>1,205,154</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 2,416,761</u>	<u>\$ 1,498,136</u>	<u>\$ 64,640</u>	<u>\$ 140,081</u>
Component Unit				
Greenwood Connections	<u>\$ 5,171,636</u>	<u>\$ 4,987,383</u>	<u>\$ -</u>	<u>\$ 2,530</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, As Adjusted for Discreted Component Unit

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
\$ (146,453)	\$ -	\$ (146,453)	\$ -
(359,319)	-	(359,319)	-
(14,587)	-	(14,587)	-
(24,855)	-	(24,855)	-
(8,213)	-	(8,213)	-
(147,535)	-	(147,535)	-
(700,962)	-	(700,962)	-
-	(53,571)	(53,571)	-
-	40,629	40,629	-
-	(12,942)	(12,942)	-
(700,962)	(12,942)	(713,904)	-
-	-	-	(181,723)
426,222	-	426,222	-
500	-	500	-
382,029	-	382,029	-
9,900	5,436	15,336	8,940
63,163	10,290	73,453	3,385
18,115	-	18,115	-
(506,731)	506,731	-	-
393,198	522,457	915,655	12,325
(307,764)	509,515	201,751	(169,398)
2,021,368	4,891,354	6,912,722	3,244,872
<u>\$ 1,713,604</u>	<u>\$ 5,400,869</u>	<u>\$ 7,114,473</u>	<u>\$ 3,075,474</u>

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FUND FINANCIAL STATEMENTS

**CITY OF MENAUGA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND
ASSETS			
Cash and Cash Equivalents	\$ 483,379	\$ 373,044	\$ 215,937
Receivables			
Accounts	2,115	-	-
Taxes	24,527	6,124	-
Interest	130	-	-
Special Assessments	-	1,649,767	-
Notes Receivable from Component Unit	-	1,215,000	-
Due from Other Funds	9,677	-	-
Advance to Other Funds	51,838	-	94,545
Inventory	375	-	-
Prepaid Items	31,120	-	-
Total Assets	<u>\$ 603,161</u>	<u>\$ 3,243,935</u>	<u>\$ 310,482</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ 6,334	\$ -	\$ -
Accrued Liabilities	1,391	-	-
Due to Other Funds	-	-	-
Due to Other Governments	235	-	-
Advance from Other Funds	94,545	51,838	-
Total Liabilities	<u>102,505</u>	<u>51,838</u>	<u>-</u>
Deferred Inflows of Resources			
Unavailable for Property Taxes	18,845	4,890	-
Unavailable for Notes Receivable	-	1,215,000	-
Unavailable for Special Assessments	-	1,645,322	-
Total Deferred Inflows of Resources	<u>18,845</u>	<u>2,865,212</u>	<u>-</u>
Fund Balances			
Nonspendable			
Prepaid Items	31,120	-	-
Inventory	375	-	-
Advance	51,838	-	-
Restricted for Economic Development	-	-	-
Restricted for Debt Repayment	-	326,885	-
Restricted for Capital Outlay	-	-	11,731
Assigned for Capital Outlay	-	-	298,751
Unassigned	398,478	-	-
Total Fund Balances	<u>481,811</u>	<u>326,885</u>	<u>310,482</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 603,161</u>	<u>\$ 3,243,935</u>	<u>\$ 310,482</u>

See accompanying Notes to Financial Statements

NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 212,147	\$ 1,284,507
-	2,115
-	30,651
-	130
-	1,649,767
-	1,215,000
-	9,677
-	146,383
-	375
-	31,120
<u>\$ 212,147</u>	<u>\$ 4,369,725</u>
\$ -	\$ 6,334
-	1,391
9,677	9,677
-	235
-	146,383
<u>9,677</u>	<u>164,020</u>
-	23,735
-	1,215,000
-	1,645,322
<u>-</u>	<u>2,884,057</u>
-	31,120
-	375
-	51,838
212,147	212,147
-	326,885
-	11,731
-	298,751
(9,677)	388,801
<u>202,470</u>	<u>1,321,648</u>
<u>\$ 212,147</u>	<u>\$ 4,369,725</u>

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**CITY OF MENAHGA, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 1,321,648
 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.	2,191,988
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.	2,884,057
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.	(45,479)
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	\$ (4,540,000)
Unamortized Discounts and Premiums	(82,110)
Compensated Absences Payable	(16,500)
	(4,638,610)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 1,713,604

CITY OF MENAHGA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND
REVENUES			
Taxes	\$ 305,215	\$ 114,458	\$ -
Tax Increments	-	-	-
Licenses and Permits	1,126	-	-
Intergovernmental	419,265	-	25,981
Charges for Services	74,232	-	78,649
Fines and Forfeits	10,880	-	-
Special Assessments	-	316,482	-
Interest	2,919	726	4,998
Collections on Notes Receivable	-	195,808	-
Miscellaneous	118,338	-	2,000
Total Revenues	<u>931,975</u>	<u>627,474</u>	<u>111,628</u>
EXPENDITURES			
Current			
General Government	202,947	-	-
Public Safety	394,155	-	-
Public Works	102,681	-	-
Culture and Recreation	28,505	-	-
Economic Development	-	-	-
Miscellaneous	52,749	210	11,105
Capital Outlay	88,845	-	712,411
Debt Service			
Principal	-	411,000	-
Interest	-	158,257	-
Fiscal Agent Fees	-	2,850	-
Total Expenditures	<u>869,882</u>	<u>572,317</u>	<u>723,516</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	62,093	55,157	(611,888)
OTHER FINANCING SOURCES (USES)			
Gain on Sale of Capital Assets	6,615	-	-
Transfers In	62,500	37,116	74,200
Transfers Out	(111,316)	-	-
Total Other Financing Sources (Uses)	<u>(42,201)</u>	<u>37,116</u>	<u>74,200</u>
NET CHANGE IN FUND BALANCES	19,892	92,273	(537,688)
Fund Balances - Beginning of Year	<u>461,919</u>	<u>234,612</u>	<u>848,170</u>
FUND BALANCES - END OF YEAR	<u>\$ 481,811</u>	<u>\$ 326,885</u>	<u>\$ 310,482</u>

See accompanying Notes to Financial Statements

NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ 419,673
3,145	3,145
-	1,126
-	445,246
-	152,881
-	10,880
-	316,482
1,257	9,900
-	195,808
10,959	131,297
<u>15,361</u>	<u>1,686,438</u>
-	202,947
-	394,155
-	102,681
-	28,505
20,530	20,530
-	64,064
-	801,256
-	411,000
-	158,257
-	2,850
<u>20,530</u>	<u>2,186,245</u>
(5,169)	(499,807)
-	6,615
-	173,816
(2,500)	(113,816)
<u>(2,500)</u>	<u>66,615</u>
(7,669)	(433,192)
<u>210,139</u>	<u>1,754,840</u>
<u>\$ 202,470</u>	<u>\$ 1,321,648</u>

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**CITY OF MENAHGA, 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, 2014**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (433,192)

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	\$ 196,545	
Depreciation Expense	<u>(174,964)</u>	21,581

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:

Repayment of Debt Principal	411,000	
Change in Accrued Interest Expense	8,921	
Amortization of Bond Premium/Discount	<u>4,861</u>	424,782

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		2,060
--------------------------------	--	-------

Property taxes receivable, special assessments receivable 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, 2013	(3,207,052)	
Deferred Inflows of Resources - December 31, 2014	<u>2,884,057</u>	<u>(322,995)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (307,764)

**CITY OF MENAUGA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER	MUNICIPAL LIQUOR	TOTALS
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,468,128	\$ 169,325	\$ 1,637,453
Receivables			
Accounts	63,886	5,553	69,439
Accrued Interest	109	-	109
Special Assessments	15,504	-	15,504
Inventories	-	79,817	79,817
Prepaid Items	4,562	4,804	9,366
Total Current Assets	<u>1,552,189</u>	<u>259,499</u>	<u>1,811,688</u>
NONCURRENT ASSETS			
Capital Assets			
Land	48,065	33,789	81,854
Building and Improvements	7,862,397	391,544	8,253,941
Machinery and Equipment	137,375	62,821	200,196
Construction in Process	19,096	-	19,096
	<u>8,066,933</u>	<u>488,154</u>	<u>8,555,087</u>
Less: Accumulated Depreciation	<u>(3,961,538)</u>	<u>(321,510)</u>	<u>(4,283,048)</u>
Total Noncurrent Assets	<u>4,105,395</u>	<u>166,644</u>	<u>4,272,039</u>
Total Assets	<u>5,657,584</u>	<u>426,143</u>	<u>6,083,727</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	2,453	4,234	6,687
Salaries and Wages Payable	556	1,041	1,597
Due to Other Governments	65	6,256	6,321
Customer Deposits	600	-	600
Accrued Interest Payable	9,271	-	9,271
Accrued Compensated Absences	502	3,408	3,910
Bonds Payable	70,000	-	70,000
Total Current Liabilities	<u>83,447</u>	<u>14,939</u>	<u>98,386</u>
LONG-TERM LIABILITIES			
Bonds Payable (Net of Unamortized Bond Discounts)	580,562	-	580,562
Accrued Compensated Absences	502	3,408	3,910
Total Long-Term Liabilities	<u>581,064</u>	<u>3,408</u>	<u>584,472</u>
Total Liabilities	<u>664,511</u>	<u>18,347</u>	<u>682,858</u>
NET POSITION			
Net Investment in Capital Assets	3,454,833	166,644	3,621,477
Unrestricted	1,538,240	241,152	1,779,392
Total Net Position	<u>\$ 4,993,073</u>	<u>\$ 407,796</u>	<u>\$ 5,400,869</u>

See accompanying Notes to Financial Statements.

CITY OF MENAHGA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER	MUNICIPAL LIQUOR	TOTALS
SALES AND COST OF SALES			
Sales	\$ -	\$ 769,175	\$ 769,175
Cost of Sales	-	(472,674)	(472,674)
Gross Profit	-	296,501	296,501
OPERATING REVENUES			
Charges for Services	430,332	-	430,332
Miscellaneous	-	5,715	5,715
Total Operating Revenues	430,332	5,715	436,047
OPERATING EXPENSES			
Personal Services	102,249	151,788	254,037
Materials and Supplies	42,457	23,313	65,770
Repairs and Maintenance	60,739	10,419	71,158
Insurance	29,617	18,434	48,051
Contract Services - Other	16,169	5,767	21,936
Depreciation	173,079	11,342	184,421
Licenses and Permits	650	586	1,236
Utilities	23,456	20,026	43,482
Miscellaneous Expense	10,875	14,197	25,072
Total Operating Expenses	459,291	255,872	715,163
OPERATING INCOME	(28,959)	46,344	17,385
NONOPERATING REVENUES (EXPENSES)			
Special Assessments	5,647	-	5,647
Investment Earnings	4,988	448	5,436
Interest	(30,259)	-	(30,259)
Miscellaneous	-	4,575	4,575
Total Nonoperating Revenues (Expenses)	(19,624)	5,023	(14,601)
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(48,583)	51,367	2,784
TRANSFERS OUT	-	(60,000)	(60,000)
CAPITAL CONTRIBUTIONS	566,731	-	566,731
CHANGE IN NET POSITION	518,148	(8,633)	509,515
Net Position - Beginning of Year	4,474,925	416,429	4,891,354
NET POSITION - END OF YEAR	<u>\$ 4,993,073</u>	<u>\$ 407,796</u>	<u>\$ 5,400,869</u>

See accompanying Notes to Financial Statements.

**CITY OF MENAUGA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>WATER AND SEWER</u>	<u>MUNICIPAL LIQUOR</u>	<u>TOTALS</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 426,794	\$ 774,820	\$ 1,201,614
Cash Paid to Employees for Services	(108,497)	(153,688)	(262,185)
Cash Paid to Suppliers for Goods and Services	(189,588)	(583,609)	(773,197)
Net Cash Provided (Used) by Operating Activities	128,709	37,523	166,232
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to Other Funds	-	(60,000)	(60,000)
Other Miscellaneous Receipts	-	4,575	4,575
Net Cash Provided (Used) by Noncapital Financing Activities	-	(55,425)	(55,425)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(19,096)	-	(19,096)
Special Assessments	5,906	-	5,906
Interest Paid	(30,613)	-	(30,613)
Principal Payments on Long-Term Debt	(70,000)	-	(70,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(113,803)	-	(113,803)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Received	5,006	448	5,454
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,912	(17,454)	2,458
Cash and Cash Equivalents - Beginning of Year	1,448,216	186,779	1,634,995
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,468,128</u>	<u>\$ 169,325</u>	<u>\$ 1,637,453</u>

See accompanying Notes to Financial Statements.

**CITY OF MENAHGA, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>WATER AND SEWER</u>	<u>MUNICIPAL LIQUOR</u>	<u>TOTALS</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (28,959)	\$ 46,344	\$ 17,385
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	173,079	11,342	184,421
(Increase) Decrease in Assets:			
Accounts Receivable	(3,538)	(70)	(3,608)
Inventories	-	(17,477)	(17,477)
Prepaid Items	(1,781)	(1,077)	(2,858)
Increase (Decrease) in Liabilities:			
Accounts Payable	(3,874)	(891)	(4,765)
Accrued Liabilities	398	196	594
Accrued Compensated Absences	(6,646)	(2,096)	(8,742)
Due to Other Governments	30	1,252	1,282
Net Cash Provided (Used) by Operating Activities	<u>\$ 128,709</u>	<u>\$ 37,523</u>	<u>\$ 166,232</u>
NONCASH ACTIVITY FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Contribution of Capital Assets from Governmental Activities	\$ 566,731	\$ -	\$ 566,731

See accompanying Notes to Financial Statements.

**CITY OF MENAHGA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2014**

	<u>Agency Fund</u>
ASSETS	
Cash and Investments	<u>\$ 21</u>
LIABILITIES	
Cash Held for Other Agencies	<u>\$ 21</u>

See accompanying Notes to Financial Statements.

**CITY OF MENAHGA, MINNESOTA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND
YEAR ENDED DECEMBER 31, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
ASSETS				
Cash and Pooled Investments	<u>\$ -</u>	<u>\$ 2,600</u>	<u>\$ 2,579</u>	<u>\$ 21</u>
LIABILITIES				
Cash Held for Other Agencies	<u>\$ -</u>	<u>\$ 2,600</u>	<u>\$ 2,579</u>	<u>\$ 21</u>

See accompanying Notes to Financial Statements.

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

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, 2014. 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, 2014

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. Eliminations have been made to minimize the double-counting of internal activities. 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, 2014**

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/Sewer Fund – The Water/Sewer Fund accounts for the activities of the water and 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 MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 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, the allowance for uncollectible accounts is deemed appropriate.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, 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, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, 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, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, 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. 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.

11. 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, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Deferred Inflows of Resources

The City's governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis accounting. The City does not have deferred inflows of resources to report in its proprietary fund financial statements in the current year.

13. Net Position and Fund Balance

Net position represents the difference between assets 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 \$1,843,974 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.

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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

14. 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.

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. Excess of Expenditures Over Appropriations

In the following fund, expenditures exceeded the appropriations during the year ended December 31, 2014:

	Expenditures	Appropriations	Expenditures Over Appropriations
General Fund	\$ 869,882	\$ 779,086	\$ 90,796

The above overage was considered by the City's management to be the result of necessary expenditures critical to operations and was approved by the Council.

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

C. Deficit Fund Equity

The following funds have a deficit fund balance at December 31, 2014:

Safe Routes to School	\$	3,292
Tax Increment Finance District 1-4		50
Tax Increment Finance District 1-6		6,335

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.

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, 2014 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*.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

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.

At December 31, 2014, the City did not have any investments. Deposits consist of the following at December 31, 2014:

	<u>Carrying Value</u>
Cash and cash equivalents	
Checking	\$ 2,078,760
Petty Cash	3,200
Certificates of Deposit	840,000
Total	\$ 2,921,960
	<u>Balance</u>
Cash and Cash Equivalents - Governmental Funds	\$ 1,284,507
Cash and Cash Equivalents - Proprietary Funds	1,637,453
Total Cash and Cash Equivalents	\$ 2,921,960

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Interfund Receivables, Payables, and Transfers

At December 31, 2014, due from/to other funds were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 9,677

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, 2014, were as follows:

	<u>Transfer In:</u>			
	<u>Primary Government</u>			<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Funds</u>	
<u>Transfer Out:</u>				
<u>Primary Government</u>				
General Fund	\$ -	\$ 74,200	\$ 37,116	\$ 111,316
Nonmajor Governmental Funds	2,500	-	-	2,500
Liquor Fund	60,000	-	-	60,000
Total	<u>\$ 62,500</u>	<u>\$ 74,200</u>	<u>\$ 37,116</u>	<u>\$ 173,816</u>

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, 2014, were as follows:

<u>Advance To</u>	<u>Advance From</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 94,545
Debt Service Funds	General Fund	51,838
		<u>\$ 146,383</u>

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. The other advance was to pay off debt early and has no repayment schedule.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Note Receivable

The City issued debt for Greenwood Connections twice. A note receivable from the component unit has been recorded in the financial statements of the City, with a balance of \$1,215,000 as of December 31, 2014. 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.

5. Capital Assets

Capital asset activity for the Primary Government (governmental activities) for the year ended December 31, 2014, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 51,786	\$ -	\$ -	\$ 51,786
Construction in Progress	117,100	41,807	158,907	-
Total Capital Assets, Not Being Depreciated:	168,886	41,807	158,907	51,786
Capital Assets, Being Depreciated				
Buildings	488,900	11,371	-	500,271
Equipment	1,269,186	143,367	142,311	1,270,242
Infrastructure	1,572,952	158,907	-	1,731,859
Total Capital Assets, Being Depreciated	3,331,038	313,645	142,311	3,502,372
Less Accumulated Depreciation for				
Buildings	214,993	11,917	-	226,910
Equipment	872,971	120,591	142,311	851,251
Infrastructure	241,553	42,456	-	284,009
Total Accumulated Depreciation	1,329,517	174,964	142,311	1,362,170
Total Capital Assets, Being Depreciated, Net	2,001,521	138,681	-	2,140,202
Governmental Activities Capital Assets, Net	<u>\$ 2,170,407</u>	<u>\$ 180,488</u>	<u>\$ 158,907</u>	<u>\$ 2,191,988</u>

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Capital asset activity for the Primary Government (business-type activities) for the year ended December 31, 2014, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 81,854	\$ -	\$ -	\$ 81,854
Construction in Process	1,587,411	585,827	2,154,142	19,096
Total Capital Assets, Not Being Depreciated	1,669,265	585,827	2,154,142	100,950
Capital Assets, Being Depreciated				
Land Improvements	12,846	-	-	12,846
Building and Improvements	378,698	-	-	378,698
Equipment	209,229	-	9,033	200,196
Distribution and Collection System	5,708,255	2,154,142	-	7,862,397
Total Capital Assets, Being Depreciated	6,309,028	2,154,142	9,033	8,454,137
Less Accumulated Depreciation For				
Land Improvements	12,846	-	-	12,846
Building and Improvements	236,455	9,388	-	245,843
Equipment	179,964	13,585	9,033	184,516
Distribution and Collection System	3,678,395	161,448	-	3,839,843
Total Accumulated Depreciation	4,107,660	184,421	9,033	4,283,048
Total Capital Assets, Being Depreciated, Net	2,201,368	1,969,721	-	4,171,089
Business-Type Activities Capital Assets, Net	<u>\$ 3,870,633</u>	<u>\$ 2,555,548</u>	<u>\$ 2,154,142</u>	<u>\$ 4,272,039</u>

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

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

Governmental Activities:

General Government	\$ 29,342
Public Safety	88,288
Public Works	47,808
Culture and Recreation	9,526
Total Depreciation Expense - Governmental Activities	<u>\$ 174,964</u>

Business-Type Activities:

Water/Sewer	\$ 173,079
Liquor	11,342
Total Depreciation Expense - Business-Type Activities	<u>\$ 184,421</u>

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.

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

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>
BONDED INDEBTEDNESS			
PRIMARY GOVERNMENT			
GENERAL OBLIGATION BONDS			
G.O. Municipal Building Refunding Bonds, Series 1996	4.5-5.5%	\$ 240,000	\$ 15,000
G.O. Improvement Bonds, Series 2006	4.05%	375,000	130,000
G.O. Improvement Bonds, Series 2007B	3.85-4.35%	1,150,000	550,000
G.O. Improvement Bonds, Series 2009	2.0-3.8%	1,015,000	790,000
G.O. Improvement Bonds, Series 2012A	2.0-3.0%	815,000	665,000
G.O. Improvement Bonds, Series 2012A	2.0-2.38%	185,000	140,000
G.O. Improvement Bonds, Series 2013A	3.0-4.0%	1,980,000	1,980,000
G.O. Improvement Bonds, Series 2013B	3.0-4.0%	270,000	270,000
Total Primary Government General Obligation Bonds			<u>4,540,000</u>
BUSINESS-TYPE ACTIVITIES			
GENERAL OBLIGATION REVENUE BONDS			
G.O. Sewer Revenue Bonds, Series 2007	4.31%	1,085,000	<u>655,000</u>
Total Government-Wide Long-Term Liabilities			<u><u>\$ 5,195,000</u></u>

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

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, 2014, is as follows:

PRIMARY GOVERNMENT	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds, Including					
Refunding Bonds	\$ 4,951,000	\$ -	\$ 411,000	\$ 4,540,000	\$ 405,000
Less: Unamortized Discounts	(783)	-	(711)	(72)	-
Add: Unamortized Premiums	87,754	-	5,572	82,182	-
Compensated Absences	18,560	34,351	36,411	16,500	8,250
Governmental Activity Long-Term Liabilities	<u>\$ 5,056,531</u>	<u>\$ 34,351</u>	<u>\$ 452,272</u>	<u>\$ 4,638,610</u>	<u>\$ 413,250</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds	\$ 725,000	\$ -	\$ 70,000	\$ 655,000	\$ 70,000
Less: Unamortized Discounts	(5,017)	-	(579)	(4,438)	-
Compensated Absences	16,562	22,451	31,193	7,820	3,910
Business-Type Activity Long-Term Liabilities	<u>\$ 736,545</u>	<u>\$ 22,451</u>	<u>\$ 100,614</u>	<u>\$ 658,382</u>	<u>\$ 73,910</u>

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

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
2015	\$ 405,000	\$ 148,509	\$ 553,509
2016	400,000	137,221	537,221
2017	415,000	124,088	539,088
2018	380,000	110,415	490,415
2019	400,000	96,926	496,926
2020-2024	1,450,000	329,813	1,779,813
2025-2029	1,090,000	95,800	1,185,800
Total	<u>\$ 4,540,000</u>	<u>\$ 1,042,772</u>	<u>\$ 5,582,772</u>

	General Obligation Bonds		
	Business-Type Activities		
	Principal	Interest	Total
2015	\$ 70,000	\$ 27,813	\$ 97,813
2016	75,000	24,943	99,943
2017	75,000	21,868	96,868
2018	80,000	18,718	98,718
2019	85,000	15,358	100,358
2020-2022	270,000	23,883	293,883
Total	<u>\$ 655,000</u>	<u>\$ 132,583</u>	<u>\$ 787,583</u>

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 MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 PENSION PLANS

Public Employees Retirement Association

Plan Description

All full-time and certain part-time employees of the City of Menahga are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for members by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

NOTE 4 PENSION PLANS (CONTINUED)

Public Employees Retirement Association (Continued)

Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree and no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the web at 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.

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

NOTE 4 PENSION PLANS (CONTINUED)

Public Employees Retirement Association (Continued)

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members are required to contribute 9.6% of their annual covered salary in 2014. The City of Menahga is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members and 15.30% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012, were \$23,668, \$27,612, and \$24,260, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$22,253, \$24,251, and \$15,770, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers) and the Police and fire Fund (10.8% for members and 16.2% for employers).

NOTE 5 RELATED ORGANIZATION

Menahga Volunteer Fire Relief Association (the Association)

Plan Description

The Public Employee Retirement System (PERS) Plan is a single-employer defined benefit pension plan administered by the Menahga Volunteer Fire Relief Association. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Benefits are established by state statute. The Menahga Fire Department issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the City's Fire Department.

Funding Policy

Minnesota Statutes specify minimum contributions that may be required from the City on an annual basis. These minimum contributions are determined based on the amount required to meet the normal cost plus amortizing any prior years' service cost over a ten year period. The Association also receives funding from the State of Minnesota as a two percent fire premium tax. The City receives the contributions and is required by statute to pass this through as payment to the Fire Relief Association. Investment earnings also add to the resources available for benefits.

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

NOTE 5 RELATED ORGANIZATION (CONTINUED)

Menahga Volunteer Fire Relief Association (the "Association") (Continued)

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to PERS for the current year were as follows:

Annual Required Contribution	\$ -
Interest on Net Pension Obligation	-
Adjustment to Annual Required Contribution	12,857
Annual Pension Cost	<u>12,857</u>
Less Contribution Made	<u>(12,857)</u>
Increase (Decrease) in Net Pension Obligation	-
Net Pension Obligation Beginning of Year	-
Net Pension Obligation End of Year	<u><u>\$ -</u></u>

The annual required contribution for the current year was determined as part of December 31, 2012, simplified statutory valuation procedure using the entry age actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return and (b) age and service retirement was assumed to occur at age 50. Pension benefit obligations on an actuarial basis are not calculated for individual volunteer fire relief associations since state statutes permit alternate calculation of required reserves based on overall actuarial assumptions.

The City's net pension obligation for the Fire Relief Association for the years ended December 31, 2014, 2013, and 2012 are as follows:

<u>December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2014	\$ 12,857	100.0 %	N/A
2013	12,913	100.0	N/A
2012	9,279	100.0	N/A

Contributions Required and Made

The City makes contributions to the Association annually in an amount equal to the fire aid received from the State of Minnesota as required by state statutes. The City is required to make additional contributions to the Association in the following year if the following years anticipated administrative expenses plus the anticipated increase in the required reserves plus amortization of the original unfunded accrued liability exceeds the anticipated revenues. The City was not required to make a contribution in excess of fire aid for 2014.

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

NOTE 5 RELATED ORGANIZATION (CONTINUED)

Menahga Volunteer Fire Relief Association (the "Association") (Continued)

Funding Progress

As of December 31, 2013 (the most recent available information), the plan was overfunded by \$40,564. Additional information on the funding progress is included in the required supplementary information section of this report.

NOTE 6 SUMMARY OF OTHER ITEMS

Claims and Litigation

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount. There were no significant legal actions outstanding as of December 31, 2014.

NOTE 7 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, 2014.

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 MENAUGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 7 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, 2014 and 2013, 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 MENAUGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 7 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, 2014**

NOTE 7 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, 2014 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, 2014**

NOTE 7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

GREENWOOD CONNECTIONS (Continued)

Capital Assets

Capital asset activity for the year ended September 31, 2014, was as follows:

	Balance September 30, 2012	Additions and Transfers	Retirements/ Transfers	Balance September 30, 2013
GREENWOOD CONNECTIONS				
Capital Assets, Not Being Depreciated				
Land	\$ 87,340	\$ -	\$ -	\$ 87,340
Construction in Progress	102,004	101,177	203,181	-
Capital Assets, Being Depreciated				
Land Improvements	56,748	-	-	56,748
Building and Improvements	5,485,554	222,686	-	5,708,240
Equipment	1,132,594	9,125	27,522	1,114,197
Total Capital Assets, Being Depreciated	6,674,896	231,811	27,522	6,879,185
Less Accumulated Depreciation	(3,443,176)	(173,898)	(27,522)	(3,589,552)
Total Capital Assets, Depreciated, Net	3,231,720	57,913	-	3,289,633
Business-Type Activities Capital Assets, Net	<u>\$ 3,421,064</u>	<u>\$ 159,090</u>	<u>\$ 203,181</u>	<u>\$ 3,376,973</u>

Long-Term Debt

The long-term debt obligations outstanding at year-end September 30, 2014 are summarized as follows:

	Range of Interest Rates	Original Issue	September 30, 2014
G.O. Bonds, Series 2007	3.85-4.35%	\$ 1,150,000	\$ 650,000
G.O. Bonds, Series 2012	2.00%	815,000	715,000
Total Outstanding Bonds			<u>\$ 1,365,000</u>

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

NOTE 7 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
2015	\$ 150,000	\$ 42,000	\$ 192,000
2016	150,000	37,000	187,000
2017	155,000	32,000	187,000
2018	160,000	26,000	186,000
2019	165,000	20,000	185,000
2020-2023	340,000	51,000	391,000
2024-2027	245,000	18,000	263,000
Total	\$ 1,365,000	\$ 226,000	\$ 1,591,000

Pensions

The Organization contributes to the General Employment Retirement Fund (GERF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. The Organization's contributions to the General Employees Retirement Fund for the years ended September 30, 2014, 2013, and 2012 were approximately \$157,800, \$142,900, and \$143,000, respectively, equal to the contractual required contributions for each year as set by state statute.

Claims and Litigation

Greenwood Connections is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position of Greenwood Connections.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government activity has increased with respect to investigations and all allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously, billed and collected revenues from patient services. Management believes that Greenwood Connections is in substantial compliance with current laws and regulations.

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

NOTE 7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT (CONTINUED)

GREENWOOD CONNECTIONS (Continued)

Adoption of New Accounting Standard

During the year ended September 30, 2014, the Organization adopted an accounting standard update for "Items Previously Reported as Assets and Liabilities" in the financial statements, as described in Note 1. The standard was retroactively applied to the financial statements for the year ending September 30, 2013, as reflected in the September 30, 2013 statement of net position and statement of revenues, expenses, and changes in net position as follows:

Statement of Net Position

Net Position - Beginning of Year	\$ 3,292,960
Deferred Financing Costs	<u>(48,088)</u>
Net Position - Beginning of Year as Adjusted	<u><u>\$ 3,244,872</u></u>

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

**CITY OF MENAHGA, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2014**

Fiscal Year Ending	Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Benefit Per Year of Service
12/31/2013	\$285,630	\$245,066	\$ (40,564)	116.6 %	\$ 1,100
12/31/2012	282,769	252,680	(30,089)	111.9	1,100
12/31/2011	277,920	259,302	(18,618)	107.2	1,100

Additional information relating to the pension plan is provided in Note 4.

The December 31, 2014 information is not yet available.

**CITY OF MENAHGA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2014**

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
REVENUES				
Taxes	\$ 309,125	\$ 309,125	\$ 305,215	\$ (3,910)
Licenses and Permits	1,225	1,225	1,126	(99)
Intergovernmental	391,419	391,419	419,265	27,846
Charges for Services	68,358	68,358	74,232	5,874
Fines and Forfeits	8,100	8,100	10,880	2,780
Interest	6,815	6,815	2,919	(3,896)
Miscellaneous	7,000	7,000	118,338	111,338
Total Revenues	<u>792,042</u>	<u>792,042</u>	<u>931,975</u>	<u>139,933</u>
EXPENDITURES				
Current				
General Government				
Mayor and Council	14,930	14,930	12,466	(2,464)
Administration	156,142	156,142	144,379	(11,763)
Elections	2,400	2,400	2,328	(72)
Contractual Services	22,500	22,500	20,324	(2,176)
Governmental Buildings	17,450	17,450	23,450	6,000
Total General Government	<u>213,422</u>	<u>213,422</u>	<u>202,947</u>	<u>(10,475)</u>
Public Safety				
Police Protection	256,050	256,050	232,900	(23,150)
Fire Protection	42,196	39,696	62,356	22,660
Other Protection	-	-	98,899	98,899
Total Public Safety	<u>298,246</u>	<u>295,746</u>	<u>394,155</u>	<u>98,409</u>
Public Works				
Street Maintenance	122,998	122,998	102,681	(20,317)
Culture and Recreation				
Beach	19,800	19,800	1,987	(17,813)
Parks	25,175	25,175	26,518	1,343
Total Culture and Recreation	<u>44,975</u>	<u>44,975</u>	<u>28,505</u>	<u>(16,470)</u>
Miscellaneous				
Unallocated Insurance	50,000	50,000	47,831	(2,169)
Taxes and Assessments	4,150	4,150	4,918	768
Total Miscellaneous	<u>54,150</u>	<u>54,150</u>	<u>52,749</u>	<u>(1,401)</u>

See accompanying Note to Required Supplementary Information.

**CITY OF MENAUGA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2014**

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
EXPENDITURES (Continued)				
Capital Outlay				
Capital Equipment	\$ 40,300	\$ 43,695	\$ 88,845	\$ 45,150
Total Expenditures	778,191	779,086	869,882	90,796
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	13,851	12,956	62,093	49,137
OTHER FINANCING SOURCES (USES)				
Gain on Sale of Capital Assets	-	-	6,615	6,615
Transfers In	60,000	60,000	62,500	2,500
Transfers Out	(60,200)	(60,200)	(111,316)	(51,116)
Total Other Financing Sources (Uses)	(200)	(200)	(42,201)	(42,001)
NET CHANGE IN FUND BALANCE	\$ 13,651	\$ 12,756	19,892	\$ 7,136
Fund Balance - Beginning of Year			461,919	
FUND BALANCE - END OF YEAR			\$ 481,811	

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.

Expenditures exceeded budgeted amounts in the general fund:

	Expenditures	Appropriations	Expenditures Over Appropriations
General Fund	\$ 869,882	\$ 779,086	\$ 90,796

The above overage was considered by the City's management to be the result of necessary expenditures critical to operations and was approved by the Council.

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SUPPLEMENTARY INFORMATION

**COMBINING FUND
FINANCIAL STATEMENTS**

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

	SPECIAL REVENUE FUNDS		
	ECONOMIC DEVELOPMENT REVOLVING LOANS	SAFE ROUTES TO SCHOOL	TAX INCREMENT FINANCE DISTRICT 1-1
ASSETS			
Cash and Cash Equivalents	\$ 193,416	\$ -	\$ 16,379
 LIABILITIES AND FUND BALANCE			
Liabilities			
Due to Other Funds	\$ -	\$ 3,292	\$ -
Fund Balance			
Restricted for Economic Development	193,416	-	16,379
Unassigned	-	(3,292)	-
Total Fund Balance (Deficit)	193,416	(3,292)	16,379
Total Liabilities and Fund Balance	\$ 193,416	\$ -	\$ 16,379

SPECIAL REVENUE FUNDS

TAX INCREMENT FINANCE DISTRICT 1-5	TAX INCREMENT FINANCE DISTRICT 1-4	TAX INCREMENT FINANCE DISTRICT 1-6	TOTAL
\$ 2,352	\$ -	\$ -	\$ 212,147
\$ -	\$ 50	\$ 6,335	\$ 9,677
2,352	-	-	212,147
-	(50)	(6,335)	(9,677)
2,352	(50)	(6,335)	202,470
\$ 2,352	\$ -	\$ -	\$ 212,147

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

	SPECIAL REVENUE FUNDS		
	ECONOMIC DEVELOPMENT REVOLVING LOANS	SAFE ROUTES TO SCHOOL	TAX INCREMENT FINANCE DISTRICT 1-1
REVENUES			
Tax Increments	\$ -	\$ -	\$ 3,145
Interest	1,219	-	32
Miscellaneous	10,959	-	-
Total Revenues	12,178	-	3,177
EXPENDITURES			
Current			
Economic Development	18,616	-	957
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,438)	-	2,220
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	(2,500)	-
NET CHANGE IN FUND BALANCES	(6,438)	(2,500)	2,220
Fund Balances - Beginning of Year	199,854	(792)	14,159
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 193,416	\$ (3,292)	\$ 16,379

SPECIAL REVENUE FUNDS

<u>TAX INCREMENT FINANCE DISTRICT 1-5</u>	<u>TAX INCREMENT FINANCE DISTRICT 1-4</u>	<u>TAX INCREMENT FINANCE DISTRICT 1-6</u>	<u>TOTAL</u>
\$ -	\$ -	\$ -	\$ 3,145
6	-	-	1,257
-	-	-	10,959
<u>6</u>	<u>-</u>	<u>-</u>	<u>15,361</u>
957	-	-	20,530
(951)	-	-	(5,169)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,500)</u>
(951)	-	-	(7,669)
<u>3,303</u>	<u>(50)</u>	<u>(6,335)</u>	<u>210,139</u>
<u>\$ 2,352</u>	<u>\$ (50)</u>	<u>\$ (6,335)</u>	<u>\$ 202,470</u>

**CITY OF MENAHGA, MINNESOTA
BALANCE SHEET
DEBT SERVICE FUND BY BOND ISSUE
DECEMBER 31, 2014**

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
ASSETS				
Cash and Cash Equivalents	\$ 84,848	\$ 24,398	\$ (73,570)	\$ (4,957)
Receivables				
Taxes	97	-	-	1,148
Special Assessments	228,618	-	192,757	344,052
Notes Receivable from Component Unit	-	1,215,000	-	-
Total Assets	<u>\$ 313,563</u>	<u>\$ 1,239,398</u>	<u>\$ 119,187</u>	<u>\$ 340,243</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities				
Advance From Other Funds	\$ -	\$ -	\$ -	\$ -
Deferred Inflows of Resources				
Unavailable for Property Taxes	-	-	-	976
Unavailable for Notes Receivable	-	1,215,000	-	-
Unavailable for Special Assessments	227,440	-	191,778	341,790
Total Deferred Inflows of Resources	<u>227,440</u>	<u>1,215,000</u>	<u>191,778</u>	<u>342,766</u>
Fund Balance (Deficit)				
Restricted for Debt Repayment	86,123	24,398	-	-
Unassigned	-	-	(72,591)	(2,523)
Total Fund Balance (Deficit)	<u>86,123</u>	<u>24,398</u>	<u>(72,591)</u>	<u>(2,523)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 313,563</u>	<u>\$ 1,239,398</u>	<u>\$ 119,187</u>	<u>\$ 340,243</u>

DEBT SERVICE FUND

2003 G.O. BONDS DEBT SERVICE	2004 G.O. BONDS DEBT SERVICE	1990 G.O. CITY HALL BONDS	2013 STREET & UTILITY DEBT SERVICE	TOTAL DEBT SERVICE FUND
\$ (21,756)	\$ 7	\$ 15,374	\$ 348,700	\$ 373,044
-	1,002	1,071	2,806	6,124
10,932	31,088	-	842,320	1,649,767
-	-	-	-	1,215,000
<u>\$ (10,824)</u>	<u>\$ 32,097</u>	<u>\$ 16,445</u>	<u>\$ 1,193,826</u>	<u>\$ 3,243,935</u>
\$ -	\$ 28,850	\$ 22,988	\$ -	\$ 51,838
-	744	783	2,387	4,890
-	-	-	-	1,215,000
10,932	31,067	-	842,315	1,645,322
<u>10,932</u>	<u>31,811</u>	<u>783</u>	<u>844,702</u>	<u>2,865,212</u>
-	-	-	349,124	459,645
(21,756)	(28,564)	(7,326)	-	(132,760)
<u>(21,756)</u>	<u>(28,564)</u>	<u>(7,326)</u>	<u>349,124</u>	<u>326,885</u>
<u>\$ (10,824)</u>	<u>\$ 32,097</u>	<u>\$ 16,445</u>	<u>\$ 1,193,826</u>	<u>\$ 3,243,935</u>

**CITY OF MENAUGA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
DEBT SERVICE BY BOND ISSUE
YEAR ENDED DECEMBER 31, 2014**

	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
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 32,535
Special Assessments	33,010	-	22,270	49,937
Interest	148	52	-	-
Collections on Notes Receivable	-	195,808	-	-
Total Revenues	<u>33,158</u>	<u>195,860</u>	<u>22,270</u>	<u>82,472</u>
EXPENDITURES				
Current				
Miscellaneous	-		-	-
Debt Service				
Principal	-	150,000	40,000	60,000
Interest	-	44,991	6,075	26,713
Fiscal Agent Fees	-	817	-	450
Total Expenditures	<u>-</u>	<u>195,808</u>	<u>46,075</u>	<u>87,163</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	33,158	52	(23,805)	(4,691)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
NET CHANGE IN FUND BALANCE	33,158	52	(23,805)	(4,691)
Fund Balance (Deficit) - Beginning of Year	<u>52,965</u>	<u>24,346</u>	<u>(48,786)</u>	<u>2,168</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 86,123</u>	<u>\$ 24,398</u>	<u>\$ (72,591)</u>	<u>\$ (2,523)</u>

**CITY OF MENAHGA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
DEBT SERVICE BY BOND ISSUE (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

DEBT SERVICE FUND

2003 G.O. BONDS DEBT SERVICE	2004 G.O. BONDS DEBT SERVICE	1990 G.O. CITY HALL BONDS	2012A FIRE TRUCK	2013 STREET & UTILITY DEBT SERVICE	TOTAL DEBT SERVICE FUND
\$ -	\$ 1,326	\$ 1,060	\$ -	\$ 79,537	\$ 114,458
221	12,120	-	-	198,924	316,482
-	-	-	-	526	726
-	-	-	-	-	195,808
<u>221</u>	<u>13,446</u>	<u>1,060</u>	<u>-</u>	<u>278,987</u>	<u>627,474</u>
-	-	-	-	210	210
31,000	95,000	20,000	15,000	-	411,000
643	2,000	1,375	3,325	73,135	158,257
-	600	-	83	900	2,850
<u>31,643</u>	<u>97,600</u>	<u>21,375</u>	<u>18,408</u>	<u>74,245</u>	<u>572,317</u>
(31,422)	(84,154)	(20,315)	(18,408)	204,742	55,157
-	-	-	37,116	-	37,116
(31,422)	(84,154)	(20,315)	18,708	204,742	92,273
9,666	55,590	12,989	(18,708)	144,382	234,612
<u>\$ (21,756)</u>	<u>\$ (28,564)</u>	<u>\$ (7,326)</u>	<u>\$ -</u>	<u>\$ 349,124</u>	<u>\$ 326,885</u>

**CITY OF MENAHGA, MINNESOTA
BALANCE SHEET
CAPITAL PROJECTS FUND BY CAPITAL PROJECT
DECEMBER 31, 2014**

	CAPITAL PROJECTS FUND	
	CAPITAL EQUIPMENT	2009 IMPROVEMENTS PROJECT
ASSETS		
Cash and Cash Equivalents	\$ 227,104	\$ (23,025)
Advance to Other Funds	94,545	-
Total Assets	\$ 321,649	\$ (23,025)
FUND BALANCE		
Fund Balance		
Restricted for Capital Outlay	\$ -	\$ -
Assigned for Capital Outlay	321,649	-
Unassigned	-	(23,025)
Total Fund Balance (Deficit)	\$ 321,649	\$ (23,025)

CAPITAL PROJECTS FUND

DNR CITY PARK PROJECT	2013 STREET AND UTILITY IMPROVEMENT	TOTAL CAPITAL PROJECTS FUND
\$ 127	\$ 11,731	\$ 215,937
-	-	94,545
\$ 127	\$ 11,731	\$ 310,482

\$ -	\$ 11,731	\$ 11,731
127	-	321,776
-	-	(23,025)
\$ 127	\$ 11,731	\$ 310,482

**CITY OF MENAHGA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUND BY CAPITAL PROJECT
YEAR ENDED DECEMBER 31, 2014**

	CAPITAL PROJECTS FUND	
	CAPITAL EQUIPMENT	2009 IMPROVEMENTS PROJECT
REVENUES		
Intergovernmental	\$ -	\$ -
Charges for Services	-	-
Interest	4,360	-
Miscellaneous	-	-
Total Revenues	4,360	-
EXPENDITURES		
Current		
Miscellaneous	-	-
Capital Outlay	101,358	-
Total Expenditures	101,358	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(96,998)	-
OTHER FINANCING SOURCES (USES)		
Transfers In	74,200	-
NET CHANGE IN FUND BALANCE	(22,798)	-
Fund Balance (Deficit) - Beginning of Year	344,447	(23,025)
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 321,649	\$ (23,025)

CAPITAL PROJECTS FUND

<u>DNR CITY PARK PROJECT</u>	<u>2013 STREET AND UTILITY IMPROVEMENT</u>	<u>TOTAL CAPITAL PROJECTS FUND</u>
\$ 25,981	\$ -	\$ 25,981
-	78,649	78,649
-	638	4,998
2,000	-	2,000
<u>27,981</u>	<u>79,287</u>	<u>111,628</u>
11,105	-	11,105
975	610,078	712,411
<u>12,080</u>	<u>610,078</u>	<u>723,516</u>
15,901	(530,791)	(611,888)
-	-	74,200
15,901	(530,791)	(537,688)
<u>(15,774)</u>	<u>542,522</u>	<u>848,170</u>
<u>\$ 127</u>	<u>\$ 11,731</u>	<u>\$ 310,482</u>

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OTHER REPORTS SECTION



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**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, 2014, 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 18, 2015.

The City's basic financial statements include the operations of Greenwood Connections. Our audit, described below, did not include the operations of 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.

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 2014-001 through 2014-003 in the accompanying Schedule of Findings and Recommendations to be material weaknesses.

Compliance and Other Matters

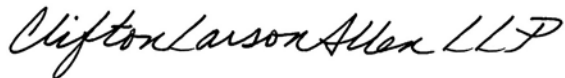
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 18, 2015

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**CITY OF MENAUGA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2014**

MATERIAL WEAKNESSES

2014-001

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. The monthly bank reconciliations are prepared by one employee and are not currently reviewed by another employee.

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. The City will implement the reviewing of bank reconciliations during 2015.*

**CITY OF MENAHGA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

MATERIAL WEAKNESSES (CONTINUED)

2014-002

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, 2014**

MATERIAL WEAKNESSES (CONTINUED)

2014-003

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

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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, 2014, 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 18, 2015.

The City's basic financial statements include the operations of Greenwood Connections. Our audit, described below, did 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 Political Subdivisions*.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing.

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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced provisions.

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 18, 2015

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